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IN THE

SOCIAL SCIENCES

VOL. II. NO. 4

DECEMBER, 1913

The Development of Banking
in Illinois, 1817-1863

BY

GEORGE WILLIAM DOWRIE, Ph.D.

Assistant Professor of Economics in the University of Michigan

PRICE 90 CENTS

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PREFACE

Early Illinois banking passed through four distinct cycles. The first originated and reached its climax between the years 1814 and 1819. The second began in 1821 and reached a culmination in 1824-25. The mania for internal improvements in the thirties caused the development of a third movement which came to a climax in 1837. The adoption of the stock bank system in 1851 began the fourth cycle which attained its highest point in 1860.

The results of this study show that in each of these movements events follow a regular sequence: (1) An urgent demand on the part of a needy community for a plentiful medium of exchange; (2) The passage of a law providing for a generous issue of poorly safeguarded paper; (3) A brief period of fictitious prosperity largely due to speculation; (4) A crisis which at first results in the suspension of redemption and later in the collapse of the bank of issue; (5) Hard times; (6) The development of a strong anti-bank sentiment; (7) The beginning of the next cycle after a surprisingly brief interval.

The method of treatment followed has been to outline the laws passed by the legislature and to show two things: (1) The causes which led to the enactment of the measures; and (2) The effect which the legislation produced upon the community.

The material has been gathered from legislative records, newspapers, banking journals, county and state histories, and the letters and biographies of prominent men. Special mention is due the invaluable treatise of Governor Thomas Ford who was present at practically every session of the legislature before 1846. The general works of Knox and Sumner and the monograph on "State Banks of Issue in Illinois" by Garnett have proved useful in checking up conclusions drawn from common sources.

The thanks of the writer are especially due to Professor E. L. Bogart and Doctor C. M. Thompson who have read the manuscript of this study and made many valuable suggestions. He is also indebted to the other members of the department of economics at the University of Illinois for numerous helpful suggestions.

CHAPTER I

THE MONETARY SITUATION IN ILLINOIS PREVIOUS TO THE ESTABLISHMENT OF BANKS.

The first white settlements in Illinois were colonies founded by French traders and missionary priests along the Mississippi River. For local purposes these colonies made use of Indian currency and pelts of wild animals or of the certificates of deposit issued by the royal warehouses in payment for furs.¹ The few commodities received from the outside world were paid for by shipments of corn, pork and skins "down the river". Little had been done toward developing the resources of the territory when France gave way to England in 1763.²

The coming of the English soldiers in 1765 caused some of the two thousand French settlers to cross over to the western bank of the Mississippi, but on the whole conditions remained unchanged during the brief period of British rule.³

After 1778 when George Rogers Clark took possession of Illinois, the best element of the French population migrated across the river and French influence upon Illinois history was soon effaced. Moreover, American settlers for a time came very slowly and it was not until 1800 that the population of Illinois again approximated 2500, the point it had reached fifty years before under the French. During the next decade a somewhat larger tide of immigration set in but it was not until the close of the war of 1812 that there was a serious demand for banks.⁴ The people with the exception of a few small merchants

¹Thompson, *The Monetary Situation in Nouvelle France*, *Journal of the Illinois State Historical Society*, iv, 146.

²Thwaites, *Jesuit Relations*, lxix, 143 ff.

³Alvord, *Illinois: The Origins*, 9 ff.

⁴*Ibid.*

were engaged in agriculture and the few needs of the family were supplied at home. The flax field and the flock of sheep provided the raw material for the house-wife's spinning wheel and loom, while the house and its furniture were constructed of the crude materials at hand.⁵ In 1802 it was estimated that not one pioneer in ten possessed a single dollar in specie.⁶ In fact, long after the state was admitted to the Union, the receipt of a letter involved a considerable search on the part of the recipient for the twenty-five cents in specie which was the usual postage on letters from the East.⁷ As far as the few local transactions were concerned, the pelts of the beaver, the raccoon, the wolf, and the deer were universally acceptable and for a long time continued to serve as money in the more backward portions of the state.⁸ "Wolf scalps were as good as county orders and with bear, deer and 'coon skins were exchangeable for tax receipts."⁹ When the publisher of one of the early Illinois newspapers found it impossible to meet his bill for paper in any other way, he shipped to his eastern creditor nine and a half dozen deer skins valued at six dollars apiece.¹⁰ The occasional pieces of money which found their way into the West were eagerly seized upon by the merchants and used in making remittances to the East. In like manner the few notes of the United States Bank which reached the West were even more eagerly sought after on account of the smaller risk attached to sending them.¹¹ In 1810, according to the census of that year, there were only 12,284 persons in Illinois, and what little immigration there was was checked

⁵Perkins and Peck, *Annals of the West*, 714; Ford, *History of Illinois*, 41; Smith, *St. Clair Papers*, ii, 438, 439. Boggess, *The Settlement of Illinois, 1778-1830*, 21-2

⁶Michaux, *Travels*, 226.

⁷Heylin, *History of Fulton County*, 702.

⁸Ford, *History of Illinois*, 43; Clarke, pub., *History of Pike County*, 104; Goodspeed, pub., *History of Gallatin, Saline, Hamilton, Franklin and Williamson Counties*, 113.

⁹Goodspeed, pub., *History of Gallatin, etc., Counties*, 236.

¹⁰*Ibid.*, 113.

¹¹Michaux, *Travels*, 127.

by the outrages of the Indians before and during the War of 1812.¹²

The close of the war marks a distinct transition in the economic life of the people of Illinois. In the first place there was a large influx of settlers who brought some money with them and thus created a demand for a better medium of exchange than animal pelts. Secondly, better agricultural methods were introduced. The new settlers instead of spending a large part of their time in hunting and fishing, improved their land and built substantial buildings upon it.¹³ Steamboats now plied between St. Louis and the ports on the Ohio and Mississippi with the result that Illinois produce could be marketed at a profit and pieces of money became less of a curiosity to the Illinois farmer.

Lastly, the passage of a liberal land law had stimulated the purchase of Illinois farms to such an extent that two land offices were established in the territory and by 1816 over half a million acres were sold.¹⁴ The whole period from 1814 to 1819, in fact, is characterized by the rage for speculating in farms and town lots, accompanied by a persistent clamor for a plentiful supply of currency. For this reason, the chief function of a western bank seems to have been to manufacture paper money and issue it on easy terms to the ambitious but impecunious inhabitants.

¹²Greene, *Government of Illinois*, 119.

¹³Reynolds, *My Own Times*, 176; Boggess, *The Settlement of Illinois, 1778-1830*, 118 ff.

¹⁴Ford, *History of Illinois*, 43.

CHAPTER II

THE TERRITORIAL BANKS.

The members of the territorial legislature were subjected to constant pressure by their constituents to follow the example of Ohio and Kentucky in each of which states there had been established a number of private banks.¹ They at length yielded to this demand and at their sessions of 1816-17 and 1817-18 granted charters to the following institutions: the Bank of Illinois, the Bank of Edwardsville, the Bank of Kaskaskia and the City and Bank of Cairo.

The Bank of Illinois was located at Shawneetown, a thriving settlement on the Ohio River just below the mouth of the Wabash. The United States saline works which produced about three hundred thousand bushels of salt a year were only a few miles away, while a large part of the tide of immigration made this point its first stopping place in Illinois. At the time the bank opened there were five hundred inhabitants, a number of stores and taverns, a newspaper office, a United States land office and a private bank, established in 1813.² The business of the last named enterprise, however, passed into the control of the Bank of Illinois.³

The charter granted to "the President and Directors of the Bank of Illinois" contained the following provisions: The capital stock of three hundred thousand dollars was divided into shares of one hundred dollars each; one third of them to be reserved for the territory or the prospective state of Illinois, if the legislature cared to purchase them. Business was to begin when fifty thousand dollars had been subscribed and ten thousand paid in.⁴ No limit

¹Ford, *History of Illinois*, 43.

²Woods, *English Prairie*, 129, 130; *Report of the Comptroller of Currency*, 1876, p. 29; Moses, *Illinois Historical and Statistical*, i, 263.

³Knox, *History of Banking in the United States*, 712.

⁴*Laws of Illinois*, 1816-17, p. 11 ff., Section 1.

was placed upon the shares one person could own, but during the first ten days of subscription no one could subscribe for more than ten shares per day. Owing to the scarcity of specie the payment of only ten dollars down in gold or silver was required, the rest to be paid in notes of other banks at the discretion of the directors so long as not more than twenty-five per cent of the whole was asked for at any time and that after sixty days' notice.⁵

The corporation was to continue for twenty years, and during its life could acquire property to the extent of five hundred thousand dollars.⁶ Its twelve directors must be resident citizens of Illinois chosen by a plurality vote of the stockholders. Holders of one to two shares had one vote; two to ten shares, one vote for every two shares; ten to thirty shares, one vote every four shares; and so on, the proportionate influence of the larger stockholders lessening as the size of their holdings increased.⁷ Fifteen or more shareholders owning not less than fifty shares could hold a meeting and appoint three of their number to examine the books and papers of the bank.⁸

The corporation could hold no lands except such as were necessary for the accommodation of its business and those mortgaged as security for loans or bought at judgment executions in the bank's favor. Its debts were not to exceed twice the capital actually paid in, money on deposit not being taken into consideration. If the directors violated this provision they were personally liable for the excess; but if a director could prove that he was not present or that he voted against the violation of the charter he was exonerated.⁹

In its dealings the corporation was limited to bills of exchange, gold and silver, goods pledged and not redeemed and goods produced on the bank's lands. The

⁵*Laws of Illinois, 1816-17*, p. 11 ff., Section 2.

⁶*Ibid.*, Section 3.

⁷*Ibid.*, Section 7.

⁸*Ibid.*, Section 7, Clause 1.

⁹*Ibid.*, Clause 7.

rate of discount was never to exceed six per cent. If at any time the bank suspended specie payment the holder of the obligation upon which the payment in specie was refused could collect twelve per cent interest until he received his money.¹⁰

The committee appointed to receive subscriptions having secured the necessary ten thousand dollars in specie, the bank opened for business January 1, 1817. Shortly afterwards, Secretary Crawford of the United States treasury asked the United States Bank to designate certain banks as additional depositaries of government funds, but the arrangement was so unsatisfactory that it was terminated the next year. Mr. Crawford himself thereupon designated certain banks as "agents of the treasury", among them the Bank of Illinois.¹¹ Under the agreement which went into effect February 1, 1819, the bank received and deposited to the credit of the treasury all current notes of such banks as maintained cash payments, but it had the power to refuse to receive the notes of any bank upon giving the receiver reasonable notice. All drafts upon it by the United States treasurer were to be paid at sight and all amounts above the fixed sum of fifty thousand dollars allotted to the bank as a permanent deposit must be sent to a branch of the United States Bank.¹² If the treasurer desired to pay a sum of money in the neighborhood of Shawneetown he could do so even if the bank were left with less than fifty thousand dollars. The Bank of Illinois was required to make monthly reports of its own condition and of its account with the federal government. Every quarter it was required to add to the regular monthly report a list of its debtors and the amount of their obligations. The privilege of retaining within the community a large share of the money collected by the

¹⁰*Laws of Illinois, 1816-17*, p. 11, Section 7, Clause 9.

¹¹*Niles' National Register*, xxvi, 290; U. S., H. of R., 18 Cong., 1 Sess., Doc. no. 128, p. 4.

¹²A messenger from the bank carried the money in person to New Orleans or Louisville, often undergoing great danger and hardships. U. S., 18 Cong., 1 Sess., *Report of the Secy. of Treas.*, 444, 525, 545, 551, 565.

local land office meant much to the people of Shawneetown as well as to the bank, for the strict supervision by the federal government prevented any serious deviation from the course of legitimate banking.

Although the bank was required to meet its obligations in specie, the legislature during the same session at which the charter was granted, passed a law providing that all executions should be subject to a stay of one year unless the party bringing judgment should agree in writing to accept in payment of the execution the notes of the Bank of Illinois and several other western banks.¹³ Since the legislature was not permitted under the federal constitution to make the notes legal tender¹⁴ recourse to such devices as the above was necessary in order to protect the debtor class which formed a large part of the population of the territory. The members of the legislature justified the act by the assertion that it would have been utterly impossible for payment to be made in specie without great sacrifice of property.¹⁵ This act, while it worked injury to the bank as a creditor, was beneficial in so far as it stimulated the circulation of its notes.

In spite of the fact that the Bank of Illinois enjoyed an unusually good reputation for conservative management,¹⁶ its progress was impeded by the attacks of its enemies. A feeling of jealousy existed between the towns of Kaskaskia and Shawneetown and between the Bank of Missouri at St. Louis and the Bank of Illinois. According to President Marshall of the latter bank, the receiver of public moneys at Kaskaskia pursued the policy of shaking the public confidence in the Shawneetown bank by one day accepting its bills in payment of dues to the

¹³The list included the banks of Cincinnati and Chillicothe in Ohio, any bank in Tennessee or Kentucky and the banks of Vincennes and Missouri. *Laws of Illinois*, 1816-17, p. 20, Section 1.

¹⁴Article 1, Section 10.

¹⁵*Laws of Illinois*, 1816-17, p. 20.

¹⁶*The Edwardsville Spectator*, August 28, 1821; Gouge, *The Curse of Paper Money and Banking*, 91, n.; *Niles Register*, xviii, 78; Moses, *Illinois Historical and Statistical*, i, 263; Andreas, *History of Chicago*, i, 526.

government and the next day refusing them.¹⁷ The Bank of Missouri went a step farther in its hostility toward its weaker rivals. It would refuse to accept their notes for a time and then, in order to present a large amount for redemption, would accept them freely. On one occasion a representative of the Missouri bank appeared at the counter of the Bank of Illinois and obtained twelve thousand dollars of its small supply of specie in exchange for Bank of Illinois notes.¹⁸ The Bank of Missouri seems to have been an especial favorite at Washington for it received an unusual share of the government deposits. It was thus able to exercise a powerful control over its weaker competitors. "Between powerful neighbors and domestic enemies,"¹⁹ the organization and successful conduct of a pioneer bank must have required a considerable degree of ability and courage.

In spite of a severe financial stringency extending over two years, the Bank of Illinois continued to carry on its business and succeeded in maintaining specie payment until long after the banks of older states had suspended.²⁰ A few days before suspension was voted, the directors had declared a dividend of eight per cent. The editor of the *Edwardsville Spectator* attributed this to the government funds on deposit, but the *Shawneetown Gazette* replied that the bank enjoyed a good healthy business irrespective of federal deposits and had never refused to redeem a note on demand.²¹

The continued struggle in the face of conditions which seemed to have no prospect of improvement at last (1823) forced the bank to suspend operations. By a succession of compromises with its debtors and creditors it managed to redeem all of its outstanding notes so far as they were

¹⁷Letter of Marshall to Edwards, in *Edwards' Papers*, 155.

¹⁸*Ibid.*

¹⁹*Ibid.*

²⁰Gouge, *The Curse of Paper Money and Banking*, 91, n.; *Bankers' Magazine*, ix, 11; U. S., 18 Cong., 1 Sess., *Report of Secy. of Treas.*, 426, 570.

²¹*Shawneetown Gazette*, quoted in *Edwardsville Spectator*, August 28, 1821.

presented; but other liabilities, among them a balance of \$28,367.85 belonging to the federal government, could not be met.²² When, however, after a lapse of fourteen years the bank was reopened under circumstances which will be discussed later, a settlement was made with the United States, and several hundred dollars worth of the original note issue was redeemed.²³

The next bank to be established in Illinois was the Bank of Edwardsville, which received its charter in 1818. Edwardsville, though but a few miles from St. Louis, was a town of considerable importance and a rival of Kaskaskia and Shawneetown for the honor of being the leading commercial center of the territory. The provisions of the charter of the Bank of Edwardsville differed from those of the Bank of Illinois in the following minor details: (1) The bank could begin business when five dollars in specie or bills of specie paying banks had been paid down on each share;²⁴ (2) There was no restriction as to the number of shares to be subscribed for by one person;²⁵ (3) The bank was not confined to a six per cent discount as the Bank of Illinois had been, but could charge the "legal rate;"²⁶ (4) Instead of the cumulative plan of voting, the "one share one vote" plan was provided.²⁷

The stock was placed on sale by a committee of prominent business men of Edwardsville and when, late in the year 1818, the requisite ten thousand dollars in specie, or its equivalent, had been received the bank began business.²⁸ In the year or more that had elapsed since the

²²U. S., H. of R., *Letter of Secy. of Treas.*, 1838, Doc. no. 79, 780; Andreas, *History of Chicago*, i, 526; Knox, *History of Banking in the United States*, 714.

²³U. S., H. of R., *Letter of Secy. of Treas.*, 1838, Doc. no. 79, 780; U. S. *Reports on the Finances*, 1829-36, p. 605.

²⁴*Laws of Illinois*, 1817-18, p. 65, Section 2. The charter of the Bank of Illinois required the payment of ten dollars in specie.

²⁵*Ibid.* Under the Bank of Illinois charter no one person could subscribe for more than ten shares per day during the first ten days.

²⁶*Ibid.*, 69, Section 7, Clause 7.

²⁷*Ibid.*, 68, Section 7, Clause 1.

²⁸Knox, *History of Banking in United States*, 713; U. S., H. of R., 18 Cong., 1 Sess., Doc. no. 133.

organization of the Bank of Illinois, conditions had become less favorable for further banking enterprises; hence the Bank of Edwardsville had an even more trying situation to face than did the former institution.²⁹

A few months after the bank began its operations the directors called for the payment of the second instalment on the shares of stock, but the financial situation throughout the country was such that more than five thousand shares had to be declared forfeited for non-payment.³⁰ Among the letters of Ninian Edwards, one of the directors of the bank, is one from Richard M. Johnson, afterwards vice-president of the United States, protesting against such action in the case of General Payne. Johnson intimates that those who had been credited with making a second payment probably were accorded the questionable privilege of borrowing the money from the bank and using their shares as collateral security.³¹

Through the offices of Edwards, who was then a senator from Illinois, the secretary of the treasury designated the Bank of Edwardsville as well as the Bank of Illinois a depository of government funds. The conditions noted in the case of the latter bank applied also to the former save that the permanent deposit of the Edwardsville bank was but forty thousand dollars instead of fifty thousand.³² Although Edwards did not approve of Crawford's system of letting out among a large number of banks funds which should have been cared for by the Bank of the United States, he preferred that the western Illinois collections should be placed in his bank rather than that they should be sent to the Bank of Missouri.³³ Shortly after securing

²⁹Letter of Marshall to Edwards, in *Edwards Papers*, 155.

³⁰*Niles' Register*, xvii, 186.

³¹*Edwards Papers*, 162; see U. S. H. of R., 18 Cong., 1 Sess., Doc. no. 133, pp. 44, 109. General Payne was the brother in law of Johnson. The members of the Johnson family are said to have held a controlling interest in the Bank of Edwardsville and to have used their political prestige to influence Secretary Crawford's dealings with the bank.

³²*Niles' Register*, xxvi, 291. U. S. H. of R., 18 Cong., 1 Sess., Doc. nos. 128, 133.

³³*Niles' Register*, xxvi, 141.

this favor for the two Illinois banks, Senator Edwards returned to Illinois only to find that the Edwardsville bank was having a hard time with the adverse business conditions which then prevailed.³⁴ It seemed to have even greater difficulty than the Bank of Illinois in withstanding the severity of the commercial depression and the onslaught of their common enemies, the Bank of Missouri and the receiver of the public moneys at Kaskaskia.³⁵ The directors of the Shawneetown bank, mindful of the struggle that attended the launching of their project, were on the whole friendly in their attitude toward the Bank of Edwardsville, although in the spring of 1819 they found it necessary to forbid their cashier to receive its notes.³⁶ This action was rescinded soon, however, for the officers of both banks realized that they could ill afford to exercise any but the most liberal policy toward each other's paper. In fact, John Caldwell, an officer of the Bank of Illinois suggested to Senator Edwards that at certain times each bank should inform the other as to the amount of the other's notes held by it and should make a practice of sending these notes as far as possible from the bank which issued them. He urged that neither bank present the notes of the other for redemption unless "dire necessity compels the unpleasant measure."³⁷

As business conditions were daily growing less favorable to the bank's success, Senator Edwards decided that he could no longer shoulder the responsibility for the safety of the United States deposits which he had procured for the bank. Consequently, he decided to sever his connection with the bank's management, and asked President Stephenson to notify Secretary Crawford of his action. Since Mr. Stephenson was also receiver of public moneys at Edwardsville, Mr. Edwards urged him to withhold from the bank all government funds in his possession until Mr. Crawford had had an opportunity to take whatever action

³⁴*Niles' Register*, xxvi, 142.

³⁵U. S., 18 Cong., 1 Sess., *Report of Secy. of Treas.*, 495.

³⁶*Edwards Papers*, 156.

³⁷Letter of Caldwell to Edwards, in *ibid.*, 158.

was deemed advisable. A few weeks later, Edwards made an announcement of his resignation through the newspaper columns, but assured the public that the Bank of Edwardsville was in good condition and under careful management. As proof of the bank's soundness, he stated that the amount of specie on hand was more than twice the amount of outstanding circulation, that none of the directors had borrowed heavily, some of them not at all, and that General Payne, the largest individual stockholder had never asked for accommodation and had always urged that the bank's affairs be conducted with the greatest caution.³⁸

The financial situation, however, was rapidly becoming more serious. As a result of the failure of the Bank of Missouri in September, 1821, a run was made upon the Edwardsville bank by note holders from St. Louis and St. Charles. The directors were warned the night before of their coming and opened the doors of the bank at seven the next morning, keeping them open until several hours after closing time in the evening. This policy was continued for several days in the hope of restoring confidence but the bank was soon compelled to suspend specie payments.³⁹ President Stephenson immediately apprized Secretary Crawford of the action and assured him that the United States funds were amply secured.⁴⁰ Secretary Crawford designated Edward Coles, afterwards governor of Illinois, to adjust the claim of the United States, but no settlement was reached aside from the transfer in trust of a large part of the bank's assets as security for the government deposits.⁴¹

Little is known of the final settlement of the bank's affairs save that the assets dwindled away and the United States never recovered any part of the \$46,800 on deposit

³⁸U. S., H. of R., 18 Cong., 1 Sess., Doc. no. 133, pp. 85, 105, no. 128, p. 8.

³⁹U. S., H. of R., 18 Cong., 1 Sess., Doc. no. 128, p. 9; *Edwardsville Spectator*, August 21, 1821, September 11, 1821.

⁴⁰U. S., H. of R., 18 Cong., 1 Sess., *Report of Secy. of Treas.*, 560.

⁴¹*Ibid.*, 566.

at the time the bank closed.⁴² Senator Edwards stated that the assets which were set aside as security for the deposit were at the time more than ample to reimburse the government, but that Secretary Crawford, out of deference to the Johnsons and General Payne had delayed settlement until the securities in trust had become worthless.⁴³

In 1823 when a committee of the House of Representatives at Washington was investigating the question of public deposits, Edwards was summoned to appear before it. In the course of his examination, he repeated his charge against Crawford, adding that he himself had warned Crawford long before the bank failed. The next year he accepted the post of minister to Mexico and was about to leave for that country when Secretary Crawford sent to the House a stinging reply to the charge. He denied that Edwards had given him any intimation as to the bank's condition. Edwards immediately resigned his appointment and preferred formal charges against Crawford. A committee of the House made a thorough investigation of the whole affair; its conclusion was that "nothing has been proved to impeach the integrity of the Secretary or to bring into doubt the general correctness and ability of his administration of the finances."⁴⁴ They found that the evidence sustained Edwards in his statement that he had published in the newspapers his intention of withdrawing from the bank, but there was no evidence that either he or the receiver of public moneys ever informed Secretary Crawford about the bank's condition. In fact, since Mr. Stephenson, the receiver, was also the president of the bank, the committee thought it but natural that he should fail to warn Mr. Crawford that the bank was not in first rate condition. The committee urged, however, that the practice of appointing the presidents of depositary banks to be receivers of public moneys be discontinued.

⁴²*U. S. Reports on Finances, 1829-36*, p. 605.

⁴³*Niles' Register*, xxvi, 140 ff., 274, 290; Edwards, *Life and Times of Edwards*, 135 ff.

⁴⁴*U. S. H. of R.*, 18 Cong., 1 Sess., Doc. nos. 128, 133; *Niles' Register*, xxvi., 174.

A charter almost identical with the one granted to the Bank of Illinois was issued to the president, directors and company of the Bank of Kaskaskia in 1818.⁴⁵ Had the bank been started earlier there is little question but that it would have succeeded. As it was, even the ability and integrity of its officers and its location in the principal settlement and capital of the territory were not able to neutralize the effect of the provision requiring that subscriptions be paid in gold and silver coin. This requirement had been met a little over a year before by the stockholders of the Bank of Illinois, but the territory was now on the eve of hard times so the Bank of Kaskaskia never transacted business. As Justice Shelton puts it in his decision in the case of the People vs. Lowenthal: "It issued no paper money and it cannot be said to have defrauded any man."⁴⁶

The incorporators of the City and Bank of Cairo undertook to launch a most pretentious enterprise on the site of the present city of that name. With the idea of founding a great metropolis they had become the owners of eighteen hundred acres of land at the junction of the Ohio and Mississippi rivers.⁴⁷ They were required by the charter to lay off the site into city lots which were to be sold at one hundred and fifty dollars each. Fifty dollars of this amount was to be devoted to building dikes and levees and constructing public buildings, while the remaining one hundred dollars was to be used as capital for a bank.⁴⁸ For this sum two fifty-dollar shares were to be issued, one to belong to the purchaser of the lot and the other to the company. When five hundred lots had been sold, a stockholders' meeting was to be held and thirteen resident citizens chosen as directors.⁴⁹ The bank was to begin the issue of notes as soon as the money for the lots

⁴⁵*Laws of Illinois, 1817-1818*, p. 82.

⁴⁶93 Illinois, 191. This same statement appears in Brown, *History of Illinois*, 428, 429.

⁴⁷*Laws of Illinois, 1817-18*, pp. 72, 73.

⁴⁸*Ibid.*, 75, Section 7.

⁴⁹*Laws of Illinois, 1817-18*, p. 76-7, Section 7.

was turned over to its officers. Since the patronage of the bank would be too small to justify its location in the new city for some time, it was provided that a banking business could be transacted at Kaskaskia until the legislature saw fit to "compel all business to be done in Cairo."⁵⁰ The bank charter proper was modeled after those granted to the banks at Shawneetown and Edwardsville.

The bank, according to Governor Ford, never accepted its charter; hence no subscriptions were received nor any organization perfected.⁵¹ Nineteen years later (1837) during the internal improvement excitement the old charter was adopted by a new company of the same name.⁵² Its history will be taken up in connection with the banking operations of that period. As for the project of founding a city, the whole scheme vanished into thin air and Cairo was settled some years later much as other settlements are established.

But one statement of the condition of the Illinois banks is available, namely, a composite balance sheet issued by the secretary of the treasury in 1819, when both institutions were in their prime. The statement shows that only \$140,910 had ever been paid in by the share holders. The remaining liabilities consisted of an outstanding circulation of \$52,021, government deposits to the amount of \$119,036.92, individual deposits amounting to \$32,568.60 and undivided profits to the extent of \$2,994.49. On the other hand, the loans and discounts amounted to \$206,694.32, almost as much as the capital stock, circulation and private deposits combined. This indicates to how small an extent deposit banking was practiced. The deposit by the government of the proceeds from the sale of public land provided the banks with an unusually large supply of specie (\$74,715.51), large amounts of which had to be conveyed on short notice to the Louisville and New Orleans branches of the United States Bank. The \$59,332.18 due from other banks was probably largely

⁵⁰*Laws of Illinois, 1817-18*, 76, 81, Section 22.

⁵¹Greene and Thompson, *Governors' Letter-Books*, ii, 60.

⁵²*Ibid.*

made up of the notes of these banks deposited by the receivers of public moneys. The remaining assets consisted of \$6,614 invested in securities and \$175 in real estate. The presence of such relatively large amounts of government funds produced a somewhat abnormal condition and prevents one from ascertaining the real character of Illinois banking at this period.⁵³

A review of the conditions which prevailed in Illinois during the existence of the two banks may serve the two fold purpose of accounting more fully for the brevity of their existence and the subsequent unpopularity of all moneyed institutions. The commerce of the community was still practically undeveloped on account of the self-sufficient character of the life and the lack of means of communication with the outside world. A bank, therefore, was looked upon as a mill for grinding out paper money on easy terms for speculators. The public lands were sold at two dollars an acre, eighty dollars to be paid down on each quarter section and the remainder spread over a period of four years.⁵⁴ According to Governor Ford, everyone who could borrow eighty dollars worth of the banks' paper invested it in land with the hope that he could sell it at a handsome profit to a "tenderfoot" before the obligation to the bank fell due.⁵⁵ Consequently when the depression of 1819-20 spread over the West, it left disaster in its wake. The failure of the banks in Ohio, Kentucky and Missouri left the people of Illinois with a quantity of worthless paper on their hands. Nearly everyone was hopelessly in debt and his lands liable to seizure by the federal government.⁵⁶ The Illinois banks in order to protect themselves at first merely resorted to suspension of specie payment but finally were compelled to close their doors. In view of such a situation, therefore, it is surprising that they made so creditable a showing as they did.

⁵³U. S., H. of R., 16 Cong., 1 Sess., Doc. no. 86, facing p. 40.

⁵⁴Laws of the U. S., 6 Cong., 1 Sess., Ch. 55, Sec. 5.

⁵⁵Ford, *History of Illinois*, 43; Wildman, *Money inflation in the United States*, 68.

⁵⁶Ford, *History of Illinois*, 44.

CHAPTER III

BANKING A STATE MONOPOLY.

When Illinois was admitted to the Union in 1818 the following provision was incorporated in her constitution: "There shall be no other banks or money institutions but those already provided by law, except a state bank and its branches which may be established and regulated by the general assembly of the state as they may think proper."¹ The principal influences underlying the insertion of this provision probably were: (1) The state of Indiana had adopted a similar course just two years before;² (2) Experience with the paper of irresponsible private banks had already engendered considerable feeling against a further resort to that means of supplying the people with a circulating medium. The conviction that note issue could be entrusted only to the state prevailed in spite of the disastrous results that have attended similar experiments in the past.³

It will be noted that the constitution permitted the banks chartered by the territorial legislature to continue, but as has been seen they soon went out of existence and left the field clear for the experiment of state banking.

Much of the future banking policy of the state depended upon the interpretation to be given to the term "state bank." When the question arose in 1834, the editor of one of the leading newspapers made an unsuccessful search for the records of the constitutional convention of 1818 in order to ascertain the ideas of the members as to what really constituted a "state bank." He was able, however, to interview several survivors of the convention, all of whom were of the opinion that the constitution was

¹Article viii, Section 21.

²*Constitution of Indiana, 1816, Article x, Section 1.*

³Davidson and Stuvé, *History of Illinois*, 305.

intended to delegate to the general assembly the power to establish an institution under state control but not necessarily owned by the state. They merely desired to stop the chartering of any more banks that would not be responsible to the state for their good conduct.⁴

This was evidently the interpretation put upon the banking clause of the constitution by the first state legislature, for they chartered a state bank half of whose stock was to be sold to private individuals. Notwithstanding the fact that the bank could begin business when it had received fifteen thousand dollars in specie,⁵ this amount was not subscribed and two years later the legislature repealed the charter.⁶ As we have already seen, the year 1819 was a very unpropitious time for attempting to launch any enterprise which required specie payments. However, a brief review of the provisions of the act may be of value in throwing light upon the ideas of our early lawmakers as to the kind of bank that would best meet the conditions that confronted them.

The parent bank was to be established at the seat of government and removed whenever it was removed.⁷ Two million dollars worth of shares was open to individual subscription and a like amount was available for the state whenever the legislature felt justified in making the necessary appropriations. The liabilities of the institution other than capital were never to exceed two million dollars. The senate and house of representatives by joint ballot were to choose six of the twelve directors. No judge or member of the legislature could serve as director.⁸ Ten per cent of the stock was to be paid for in specie or its equivalent.⁹ If the bank refused to redeem its obligations in specie on demand, a penalty of twelve per cent interest was added to the amount of the obligation.¹⁰

⁴*Sangamo Journal*, January 25, 1834.

⁵*Laws of Illinois*, 1819, p. 151 ff., Section 5.

⁶*Ibid.*, 1821, p. 93.

⁷*Ibid.*, 1819, p. 151, ff., Section 1.

⁸*Ibid.*, Section 3.

⁹*Ibid.*, Section 4.

¹⁰*Ibid.*, Section 5.

The legislature evidently soon recognized the hopelessness of expecting the bank to accumulate the required amount of specie so it supplemented the charter during the same session at which it was passed by providing that in paying for bank stock, the state auditor's warrant should be considered as good as specie.¹¹ But even this inducement failed to effect the desired result. In the meantime there set in the general collapse of banks and other business enterprises, described in connection with the discussion of the territorial banks. So utterly hopeless was the condition of the people that a clamor for government aid arose.

Notwithstanding the vigorous message of Governor Bond in which he pointed out the folly of establishing a bank for the sole purpose of relieving individual distress, a bill was introduced in the next legislature for the establishment of a bank based wholly on the credit of the state. One would suppose that the mere suggestion of being able to borrow from the state upon easy terms sufficient currency to tide over the hard times would meet the unqualified approval of a community hopelessly in debt. But the opposition to the scheme was not solely on the part of the group of enlightened and disinterested legislators who contested the measure every step of the way. Mass meetings were held to protest against the adoption of the project.¹² At a meeting of the citizens of Bond County it was resolved that "the legitimate object of banking institutions is to afford a safe and convenient medium for the emission of loans founded on solid capital and not a project of needy individuals for the creation of funds; that whenever the emission of paper by any banking institution does not depend upon the ability to redeem it promptly in specie the community can have no assurance that it will not be extravagant, and no reasonable hope

¹¹*Laws of Illinois, 1819*, p. 299.

¹²*Edwardsville Spectator*, February 13, 1821. The action taken by the citizens of Crawford, Randolph and Gallatin counties was embodied in resolutions and forwarded to the legislature. *House Journal, 1820-21*, p. 227.

that it may ever be redeemed." It was further urged that such an act would be unconstitutional in that it would impair the obligation of contracts.¹³ On the other hand, the passage of the measure was urged on the ground that it is the duty of the state in time of great pecuniary embarrassment to afford such measure of relief to prevent the "unnecessary and wanton sacrifices of the property and possessions of the citizens of the state."¹⁴

The bill, however, passed both houses by a very close vote after its discussion had consumed a fourth of the time of the session.¹⁵ Governor Ford cites the election of its sponsor, Richard M. Young, to the United States senate as one of the many examples in the history of the state of the forgiving nature of the people in the case of men who have been active in the passage of harmful legislation.¹⁶

The constitution of 1818 required that all bills receive the approval of the council of revision which was composed of the governor and the judges of the supreme court. When the act in question came before the council it received a unanimous veto and was sent back to the House for further consideration.¹⁷ The note accompanying the rejected measure gave as the reason for the unfavorable action that the State of Illinois had no right to establish a loan office scheme in the face of the prohibition in the federal constitution against the emission of bills of credit.¹⁸ It had been decided that a bill payable on demand out of a specified fund was not a bill of credit, but the council held that bills of a state payable at some future time were clearly not included in the meaning of that decision and therefore came under the ban of the United States constitution. They further justified their veto with the pre-

¹³*House Journal*, 1820-21, p. 227.

¹⁴Mass meeting of the citizens of Madison County. *Edwardsville Spectator*, March 20, 1821.

¹⁵*Niles' Register*, xx, 48.

¹⁶Ford, *History of Illinois*, 46.

¹⁷*Ibid.*

¹⁸Article I, Section x.

diction that a train of evils would follow the adoption of the bank measure. They urged that some other means be found to relieve the popular distress than the issue of notes which would not circulate in interstate commerce and would not provide a satisfactory medium of exchange even at home.¹⁹

In the house of representatives the bill and objections were referred to a committee which recommended the passage of the bill over the council's veto. Their reply to the objections of the council was: (1) A bank note issued by a state bank was not a bill of credit because the state did not propose to make the notes legal tender; (2) The council signed the bill creating a state bank in 1819; (3) Congress when it admitted Illinois to the Union approved her constitution even though it reserved banking privileges to the state; (4) If other states did refuse to receive Illinois paper the citizens of Illinois would have more for their own use.²⁰ When the motion to repass the bill came before the House, Mr. McLean, the speaker, a bitter opponent of the whole scheme, resigned the chair in order to fight the bill because the rules forbade the speaker to address the House and the friends of the bank measure refused to go into a committee of the whole. He was promptly re-elected, however, and the House went into a committee of the whole in order to give him an opportunity to express his views. Notwithstanding the high regard of the members for Mr. McLean and his eloquent arguments in support of the council's position, the House repassed the bill by a vote of seventeen to ten.²¹ Four of the ten who opposed the measure framed a formal protest against the action of the House and succeeded in having it spread upon the records. The significant feature of

¹⁹*House Journal*, 1820-21, p. 236. *Edwardsville Spectator*, February 13, 1821.

²⁰*House Journal*, 1820-21, p. 261 ff.

²¹Ford's account of this incident (*History of Illinois*, 46) does not tally in every respect with the record of the proceedings of the legislature for February 6, 1821. *House Journal*, 1820-21, pp. 271 ff.; *Edwardsville Spectator*, February 13, 1821.

the document is its declaration that all banks are detrimental to the morals of the people and a menace to popular liberty even when they are established upon a specie basis. They laid the then-existing crisis in the United States at the door of banks and predicted that the State Bank of Illinois would become the tool of the political demagog and the artful politician.²²

On the same day the bill was forwarded to the senate where it received just enough votes to pass it over the council's veto.²³ One of the eight men who gave their votes for the measure immediately received the appointment of cashier of one of the branches of the bank,²⁴ a direct violation of the state constitution.²⁵

The bill in its final form provided for the establishment of the State Bank of Illinois at Vandalia, the new state capital. The capital stock was not to exceed five hundred thousand dollars and was to be owned entirely by the state.²⁶ The bank was to do business for ten years and was permitted to hold property up to double the amount of its capital stock.²⁷ In order that no partiality be shown to any section, branch banks were provided for the towns of Edwardsville, Shawneetown, Palmyra,²⁸ and Brownsville.²⁹ The state was then districted in such a

²²*House Journal*, 1820-21, pp. 227-29.

²³The Illinois constitution of 1818 (Article iii, Section 19) provided that if after consideration the bill was approved in both houses by a majority of all members elected, it became a law without the consent of the council of revision.

²⁴*Alton Spectator*, January 25, 1834.

²⁵Article ii, Section 19.

²⁶*Laws of Illinois*, 1821, pp. 80 ff., Section 1.

²⁷*Ibid.*, Section 2.

²⁸This village, now deserted, was the first county seat of Edwards County when the boundaries of the county extended to Canada. For some years it was a thriving market town, but the location was so unhealthful that it was finally abandoned. McDonough, *History of Edwards, Lawrence and Wabash Counties*, 238.

²⁹At this time Brownsville was the county seat of Jackson County and contained a population of over five hundred, ranking next to Shawneetown and Kaskaskia. However, the collapse of the state bank and several other misfortunes caused the town to be abandoned. Illinois State Historical Society, *Transactions*, 1905, p. 372.

manner that every county was assigned to the principal bank or one of the branches.³⁰

The president and the six directors of the parent bank and five directors for each of the branches were to be chosen biennially by joint ballot of the two houses of the legislature. In choosing the branch directors, however, proper geographical distribution must be made.³¹ The selection of all other officers was left to the respective boards of directors. Although the state was the sole owner and beneficiary of the enterprise, its total appropriation for getting the institution under way was the two thousand dollars provided for the purchase of bank note plates.³² For the time being only three hundred thousand dollars was to be printed and issued, the issue of the remaining two hundred thousand being left to the will of the next legislature.³³

The denominations provided for were ones, twos, threes, fives, tens and twenties. It was required that every note should read: "The President and Directors of the State Bank of Illinois promise to pay to_____ or bearer the sum of_____ Dollars, agreeably to the provision of the charter of this institution, with interest thereon at the rate of two per cent per annum. Receivable at all times for debts due the State or the Bank."³⁴

As soon as the notes were ready they were distributed to the bank and branches according to the population of their respective districts. The banks were required to deal with all persons alike.³⁵ A borrower must apply only to the bank in his own district and no one person was to receive a loan of more than a thousand dollars. If the amount of the loan exceeded a hundred dollars, payment must be secured by a mortgage on unincumbered

³⁰*Laws of Illinois, 1821*, pp. 80 ff., Section 4.

³¹*Ibid.*, Section 5.

³²*Ibid.*, Section 8.

³³*Ibid.*, Section 9.

³⁴*Ibid.*, All unauthorized issues of paper currency within the state were forbidden under a penalty of \$10,000.

³⁵*Ibid.*, Section 12.

real estate worth at least twice the amount of the mortgage. Loans of a hundred dollars or less could be made upon personal security approved by a two-thirds vote of the directors present at the meeting at which the loan was under consideration.³⁶ A uniform interest rate of six per cent was established for all loans.

The bank was made the sole depositary of the state's funds and in so far as these funds consisted of specie or its equivalent the bank could make them the basis of a further note issue up to twice their amount. This issue, however, must be redeemed in gold or silver on demand³⁷ while the state allowed itself ten years to redeem the regular issue, one tenth to be redeemed and retired annually.³⁸ The issue based upon state funds was forbidden by an act of 1823, but the state in other ways continued for ten years to misuse the funds granted to the common schools by the United States.³⁹ The bank was required to show great leniency to its debtors. Their loans must be considered standing accommodations renewable from year to year if necessary, upon payment of ten per cent of the principal.⁴⁰

In order to safeguard the interests of the state the branch banks were required to report semi-annually to the principal bank and these reports were incorporated in the biennial report of the bank to the legislature. Committees of the legislature were to be permitted to examine the bank at any time.⁴¹

The original act provided that the president of the parent bank should receive in lieu of a salary the right to borrow two thousand dollars more than he could otherwise have borrowed.⁴² But at the same session it was provided that he should receive a cash salary of eight

³⁶*Laws of Illinois*, 1821, pp. 80 ff., Section 12.

³⁷*Ibid.*, Section 36.

³⁸*Ibid.*, Sections 23, 29.

³⁹Sumner, *History of Banking in All Nations*, i, 157.

⁴⁰*Laws of Illinois*, 1821, pp. 86 ff., Section 14.

⁴¹*Ibid.*, Section 17.

⁴²*Ibid.*, Section 18.

hundred dollars instead of the extra accommodation at the bank.⁴³ However, branch presidents and directors were granted additional loans of a thousand dollars and seven hundred fifty dollars respectively.⁴⁴ Cashiers were to be paid a salary of not more than eight hundred dollars.⁴⁵

As was the case with the territorial banks the legislature was forbidden by the federal constitution to make the notes legal tender, but it sought to accomplish the same end by the usual indirect methods, namely, making the notes legal tender for all public dues within the state⁴⁶ and providing that the execution of judgments should be suspended for three years if the plaintiff were unwilling to accept the state bank notes.

The legislature proceeded to elect the president and directors of the bank and, in accordance with a supplementary act of 1823, the cashier of the parent bank. The bank began making loans in July, 1821, and everyone who could offer the necessary security obtained his share of the three hundred thousand dollars.⁴⁷ According to Ford, a large number of the bank's officers were members of the legislature⁴⁸ and all of them professional politicians who were then, or expected to be, candidates for office so they were unwilling to risk their popularity by a too close scrutiny of the kind of security offered. Moreover, they were merely the agents of a state lending her credit to her indigent citizens and felt no keen sense of personal responsibility.⁴⁹

⁴³*Laws of Illinois*, 1821, 144.

⁴⁴*Ibid.*, Section 18.

⁴⁵*Ibid.*, Section 19.

⁴⁶*Ibid.*, Section 9.

⁴⁷*Edwardsville Spectator*, July 3, 1821. In the same newspaper in its issue of August 14, 1821, is an account of the meeting of the directors of the Edwardsville Branch at which the entire share of the district, more than \$80,000, was loaned upon personal security in sums of \$100 or less.

⁴⁸The names of the president and directors of the bank are given in the *House Journal* (2 Sess., 1 G. A.) 68. None of the persons mentioned in this list was a member of the general assembly.

⁴⁹Ford, *History of Illinois*, 47. Article on Illinois by W. H. Brown, in *Chicago American*, December 25, 1840.

As far as the larger transactions were concerned, the new bills for a time supplied the demand for a circulating medium, but there was still no provision for small change. Minor coins were as scarce as those of larger denomination; hence the practice arose of tearing the bank notes into halves, quarters, etc., in order to make change.⁵⁰ This practice received the official sanction of the bank in 1823 when its directors authorized the tearing of all notes of five dollars or less denomination and offered to receive portions of notes in payment of all obligations to it.⁵¹

The members of the general assembly believed that the bills of the bank would be on a par with gold and went so far in this belief as to pass resolutions calling upon the treasury department at Washington to accept the Illinois bank notes as the equivalent of specie.⁵² According to Ford's oft-quoted account, when the matter came to a vote in the state senate, Lieutenant-Governor Menard, a shrewd old French pioneer, put the motion as follows: "Gentlemen of de Senate, it is moved and seconded dat de notes of dis bank be made land office money. All in favor of dat motion say 'aye.' All against it say 'no.' It is decided in de affirmative. And now gentlemen, I bet you one hundred dollars he never be made land office money."⁵³

It was not long until the dire prediction of those who had opposed the establishment of the bank began to be fulfilled. The notes which never were accepted on a par with gold soon began to depreciate still further and in a few weeks after the bank opened were quoted at seventy-five cents on the dollar.⁵⁴ A month later they had reached sixty-two and one-half cents⁵⁵ and kept on sinking until 1823 when they remained at about thirty cents until 1825.⁵⁶

⁵⁰*Illinois Intelligencer*, March 15, 1823; Ford, *History of Illinois*, 47.

⁵¹*Illinois Intelligencer*, March 15, 1823.

⁵²Ford, *History of Illinois*, 45.

⁵³*Ibid.*

⁵⁴W. F. Baker, in *Bankers Magazine*, ix, 12.

⁵⁵Advertisements in the *Edwardsville Spectator*, October 16, 1821.

⁵⁶Article by W. H. Brown, in *Chicago American*, December 25, 1840. The editor of *Niles' Register* (xxiv, 342) reports having received a sub-

After that year there was a rise in value due to the adoption by the state of measures which will be considered at a later stage.

Several causes contributed to this utter failure of the notes to maintain their standing in the eastern money market. In the first place, no provision was made for the redemption of the notes in specie on demand. The parent bank received some specie for a time, most of it as the depositary of state funds received from the federal government. But aside from this limited amount not a dollar in specie was paid into the treasury.⁵⁷ When upon one occasion one of the branches received two dollars in specie from a customer they were placed upon exhibition as curiosities.⁵⁸ The loss of its building and fixtures in January, 1823,⁵⁹ by fire compelled the parent bank to keep its specie in a box fastened with a padlock. In March of the same year, robbers broke into the temporary quarters of the bank and carried off \$4,200, "a large part of its specie."⁶⁰ From these bits of evidence it can readily be seen that the bank was in no position to maintain its notes at a parity with gold.

In the next place, the bank's debtors failed to take the right attitude towards their obligations. The *Edwardsville Spectator* soon after the first loans were made in that district complained that the greater part of the borrowers instead of paying their honest debts squandered the money for "purposes worse than useless."⁶¹ They looked upon the issue as a gift from the state which could be paid back or not as they saw fit.⁶² Other borrowers of the bank's notes eased their consciences with the assurance that the notes were bills of credit and therefore the whole scheme was

scription from an Illinois gentleman who complained that it cost him

twelve dollars in Illinois currency to obtain the five dollars in United States money inclosed.

⁵⁷Edwards, *Life and Times of Edwards*, 207.

⁵⁸Baker, in *Bankers Magazine*, ix, 12; Brown, *History of Illinois*, 433.

⁵⁹*Illinois Intelligencer*, February 1, 1823.

⁶⁰*Ibid.*, March 29, 1823.

⁶¹December 11, 1821.

⁶²Ford, *History of Illinois*, 47.

unconstitutional.⁶³ The question was taken into the courts and a decision was rendered by the supreme court of Illinois in 1826. It was decided that the borrower of a bank's paper cannot be released from his obligation by *raising the contention that the bank's charter is unconstitutional*.⁶⁴ The court ignored the real issue of the constitutionality of the bank's paper until 1833, two years after the expiration of its charter. It was then held that a promissory note given in consideration of such bills is void and cannot be collected by law.⁶⁵ If this latter decision had come some eight or ten years earlier it would probably have placed the state in an even more embarrassing position than the one it was forced to occupy until it had settled the bank's affairs.

In the third place, the series of ultra-liberal measures granting relief to debtors complicated the financial situation in the state. We have already noted the provision in the bank's charter granting a stay of execution where the plaintiff refused to accept bank notes from the debtor. At the same session, the legislature added the provision that even if the plaintiff did signify his willingness to accept state currency, the defendant could have a replevin of sixty days. The execution of all contracts calling for gold and silver was stayed from one to five months according to the amount of the debt. All judgments of justices of the peace could also be stayed for thirty days. These measures, while on their face either of no significance to the bank or else actually showing favor to its notes, still did a great deal to engender a spirit of disregard of the sacredness of one's obligations. The bank undoubtedly lost far more from the prevalence of this spirit than it gained from the favor shown its notes. The great depreciation of the bank's notes ought in itself to have afforded sufficient relief to debtors but the legislature in 1825 granted further aid to that class by making the warrants of the state audi-

⁶³Edwards, *Life and Times of Edwards*, 175.

⁶⁴Snyder vs. President and Directors of the State Bank, *Breese*, 161.

⁶⁵Linn vs. President and Directors of the State Bank, 1 *Scammon* 87.

tor receivable at the bank.⁶⁶ With the appreciation of the bank's notes referred to above, began another series of relief laws which will be dealt with in another connection.

Lastly, when we consider that the bank had twenty-six directors, each of whom was entitled to a loan of seven hundred fifty dollars in addition to his individual borrowings, and four branch presidents, each entitled to additional loans of a thousand dollars, we can readily agree with Governor Edwards' view of the situation. In his inaugural message of 1826, Governor Edwards pointed out to the legislature that the bank's officers had borrowed "to the full limit of the law and thus became more interested than any other class in the community in impairing the credit of the institution and depreciating its notes, as the means of facilitating the discharge of the debts they had contracted with it." They felt that there was no need of paying obligations which could eventually be shifted upon the whole community in the form of state taxes.⁶⁷ By borrowing to the full limit allowed individuals in addition to their accommodation as directors, these men were enabled to divert \$53,500, or more than one sixth of the total issue of notes, to their own selfish ends. In some cases they transferred their right to borrow to their friends, thereby enabling them to exceed the lawful loan limit.⁶⁸

It is little to be wondered at, therefore, that the whole venture was doomed to failure from its very birth and that but two years after its inception, state bank notes were quoted at but thirty cents on the dollar.

The effect of the depreciated notes was now so keenly felt that both friends and foes of the original project united in asking the next legislature, to which had been left the option of issuing an additional two hundred thousand dollars, not to exercise this privilege. The bill which sought to provide such an issue was accordingly defeated

⁶⁶*Laws of Illinois, 1824-25*, p. 84.

⁶⁷Message of Governor Edwards, *Senate Journal, 1826-27*, p. 54.

⁶⁸*Ibid.*

in the lower house by a vote of nine to twenty-four.⁶⁹ The few friends of the measure then attempted to secure the adoption of a resolution providing for the submission of the question to the people at a special election; but this project met a like fate.⁷⁰ A number of measures calculated to remedy the whole situation were introduced, but no action of consequence was taken. In accordance with a joint resolution of the two houses, a committee was appointed to investigate the affairs of the bank and reported: (1) that they had examined the papers and cash of the principal bank and found that they tallied with the annual report of December 11, 1822; (2) that little satisfaction could be had in examining the books of the branches on account of their poor bookkeeping and failure to make reports; (3) that the different branches should be required to obey the law in the matter of transmitting regularly to the parent bank their share of the one-tenth of the notes that was to be destroyed each year. They recommended the creation of a responsible committee whose members would see to it that the retired issue was actually destroyed. They expressed the opinion that such a measure would restore public confidence in the remaining notes.⁷¹ The legislature took little notice of the report of the committee aside from the passage of an act requiring the cashiers of the branches "to make out and transmit to the cashier of the principal bank by the first of January of each year a complete abstract of their discount books for the year past." They reduced the salary of the president of the principal bank to two hundred dollars and increased the salary of the cashier to a thousand dollars.⁷²

When the next legislature met in December, 1824, the necessity for action was so great that it could no longer be ignored. Governor Coles in his message censured the

⁶⁹*Illinois Intelligencer*, January 4, 1823.

⁷⁰*Alton Spectator*, February 11, 1834.

⁷¹*House Journal*, 1822-23, p. 108; *Illinois Intelligencer*, January 11, 1823.

⁷²*Laws of Illinois*, 1822-23, p. 181.

legislature of 1820-21 for its hasty action in interpreting as the pressure of the times a condition which was largely the result of excessive issues of paper. But now that the evil had been done, he recommended the strictest publicity of all the bank's accounts and the passage of such measures as would expedite the speedy dissolution of the bank upon the expiration of its charter without loss to the state.⁷³ Accordingly a law was enacted providing for the appointment of three commissioners to make a thorough examination of the Shawneetown branch bank, whose officers seem to have been under suspicion.⁷⁴

The act further instructed the cashier of this branch to deliver to the cashier of the main bank the whole amount of the ten per cent fund which was supposed to be retired and destroyed every year. A penalty of \$1000.00 was provided if the cashier or other officers hindered the work of the commissioners.⁷⁵ A joint committee appointed to ascertain the condition of the whole institution revealed the fact that thus far the expenses of the principal bank had exceeded its discounts by \$2,403.90. The Brownsville branch had also been run at a loss, but the Edwardsville and Palmyra branches each had a small balance. The Shawneetown branch had been conducted in so loose a manner that it was impossible to ascertain its true condition. The cashier had made a loan of \$3750 without security and was unable to account for \$4800 additional.⁷⁶ The legislature took no immediate action against the Shawneetown officers but three months later by joint resolution it authorized Governor Coles to appoint a competent accountant to make a thorough examination of the books.⁷⁷ This appointment was made and the affairs of the bank carefully investigated, but the books were in

⁷³ Governor's message, 1824.

⁷⁴ *Laws of Illinois*, 1824-25, p. 16, Section 1.

⁷⁵ *Ibid.*, Section 2.

⁷⁶ Knox, *History of Banking in the United States*, 716; *House Journal*, 1824-25, p. 203; *Senate Journal*, 1824-25, p. 217.

⁷⁷ *Laws of Illinois*, 1824-25, p. 185.

such unintelligible shape as to throw little light upon the bank's real condition.⁷⁸

So involved were the members of the legislature and their friends in the affairs of the bank that no action resulted directly from either investigation.⁷⁹ In the meantime, however, a reform act was passed supplementary to the act establishing the bank. It provided that the cashier of the principal bank should collect all notes as soon as possible and all those not yet signed and proceed to burn them in the public square at Vandalia in the presence of the governor and judges of the supreme court.⁸⁰ Thereafter when the treasurer of the state paid out a bank note it was to bear the stamp "re-issued" and no interest could be collected by the holder.⁸¹ Cashiers of the branches were required to forward semi-annually for retirement and burning all notes repaid by borrowers except a small sum for current expenses.⁸² The offices of president and directors were abolished in the case of all the branches and

⁷⁸The following report of the examiner, taken from the *Illinois Intelligencer* of June 17, 1825, is of interest in showing upon what a costly enterprise the state had ventured:

Liabilities:

Original note issue.....	\$ 84,685.00
Discounts earned and loans repaid.....	15,547.68
<hr/>	
	\$100,232.68

Assets:

Unpaid loans	
renewed	\$ 40,321.07
bad debts	31,969.60
Expenses of branches	5,497.90
Notes returned to principal bank	19,947.00
Two per cent interest to note holders.....	903.61
<hr/>	
	\$ 98,638.18

Upon being questioned by the examiner as to the failure of his statement to balance the cashier explained that he would be able to show auditor's warrants and bank notes to cover the deficiency.

⁷⁹Ford, *History of Illinois*, 65; Reynolds, *My Own Times*, 173.

⁸⁰*Laws of Illinois*, 1824-25, p. 82, Section 1.

⁸¹*Ibid.*, Section 2.

⁸²*Ibid.*, Section 3.

only the cashier was left to collect the debts and renew loans. The cashier of the principal bank was placed under a fifty thousand dollar bond and the cashiers of the branches under a thirty thousand dollar bond in order to protect the state from further loss on account of their careless bookkeeping or embezzlement of funds.⁸³ Thereafter a cashier could be removed by the governor at pleasure and satisfactory evidence had to be given before May 1, 1825, that all five of the cashiers were not defaulters and that they had faithfully discharged the duties of their respective offices.⁸⁴ To facilitate the destruction of notes, auditor's warrants were made legal tender at the bank which exchanged them for notes held by the state treasurer.⁸⁵ Five days after the act was signed the bank's officers in the presence of the governor and the supreme court destroyed \$75,000 worth of notes, one fourth of the entire issue.⁸⁶

Governor Coles was keenly alive to the necessity of improving the bank's condition and his letter book bears testimony to his vigilance in enforcing the bank laws.⁸⁷ In a letter to the cashier at the Shawneetown branch he states that the well being of the bank demands a most rigid enforcement of the letter of the law. He warns the official in question that if any further violation of the law occurs, "a very few days will be permitted to pass" before he will exercise the authority vested in the governor by dismissing the offender from office. In the examination of the Shawneetown branch referred to above, the accountant found that the cashier credited himself with a generous fee whenever he protested a note. Governor Coles demanded that reparation be made to the principal bank and that all the bank notes that had accumulated during the six months period be forwarded promptly to the principal bank for retirement.⁸⁸

⁸³*Laws of Illinois, 1824-25*, p. 82, Section 4.

⁸⁴*Ibid.*, Section 1.

⁸⁵*Ibid.*, Section 7.

⁸⁶*Illinois Intelligencer*, January 21, 1825.

⁸⁷Greene and Alvord, *Governors' Letter Books*, i, 76-82, 89.

⁸⁸*Ibid.*, 89.

On June twenty-third after the branches had sent in their notes, a second "purification by fire"⁸⁹ of the notes of the bank occurred in which eleven thousand dollars worth was destroyed. Within two weeks the specie value of the outstanding notes increased about five cents on the dollar.⁹⁰ By December twentieth when the next semi-annual destruction of notes occurred the total amount outstanding had been reduced to less than two hundred thousand dollars.⁹¹ From this time the appreciation of the notes continued with the progress of their retirement.⁹² At the close of Governor Coles' administration a year later, they were rated at seventy-five cents on the dollar.

Governor Coles continued his unrelenting vigilance over the bank up to the very close of his administration. Just before the opening of the next general assembly in December 1826, he sent a lengthy questionnaire to the cashiers of the bank and branches with a view to obtaining data for the use of the legislators,⁹³ but the result was a great disappointment. The cashier of the principal bank answered the questions in a very unsatisfactory manner. The Shawneetown cashier had recently died and his administrator had refused to turn over the property of the branch to the new appointee. The other branches furnished sufficient information in addition to that received from the principal bank to give a general idea of the condition of affairs. The four districts in question had loaned \$215,000. Of this amount, \$109,615 had been repaid, while the remainder might be repaid within the allotted five years or might have to be abandoned as uncollectible. The expenditures for operation had consumed \$43,820, an excess of \$11,000 over interest earned.⁹⁴

In his farewell message, Governor Coles gave some very sound advice which the legislature would have done

⁸⁹*Niles' Register*, xxix, 326.

⁹⁰*Illinois Intelligencer*, June 24, 1825.

⁹¹*Niles' Register*, xxix, 326, 369.

⁹²*Chicago American*, December 25, 1840.

⁹³Greene and Alvord, *Governors' Letter Books*, i, 107.

⁹⁴*Senate Journal*, 1 Sess., 1826-27, p. 22.

well to heed, but which, as we shall see, was soon forgotten. He urged them not to increase the already great embarrassment of the state's finances by the enactment of measures for the further relief of the already pampered debtor. He advocated a policy of non-interference with the bank, aside from providing for a simple effective system for the settlement of its affairs. Finally, he pointed out the fact that a speedy termination of the whole enterprise was the only protection against a total loss to the state from the deterioration of the bank's assets.⁹⁵

From the very beginning the state bank proved to be a serious burden to the state's finances. The state's annual revenue amounted to about \$25,000 and was derived almost wholly from the land held by non-residents in the region still known as the military tract, lying north and west of the Illinois River. The residents of the state paid their taxes to the counties every year, while the state collected from the non-residents only every other year.⁹⁶ As early as 1822 the state auditor had pointed out that some measure should be adopted for the relief of public officers who were receiving their salaries in bank paper at par and paying for goods at a discount of more than fifty per cent. He contended that the non-resident taxpayer met but half of his real obligation to the state by paying in bank notes and furthermore he escaped all the attendant currency ills which a resident was compelled to suffer.⁹⁷ Thus it can be seen that the depreciation of state paper, while it decreased the real revenue on one hand, caused an increasing clamor for a greater expenditure on the other. As this was a matter that concerned the members of the general assembly in a personal way, prompt action was taken upon the auditor's suggestion. Six weeks later, an act had been passed and approved appropriating nine dollars a day each to the speakers of the two houses in place of the usual *per diem* of five dollars.⁹⁸ Each senator

⁹⁵ *Senate Journal*, 1 Sess., 1826-27, p. 22.

⁹⁶ Ford, *History of Illinois*, 47. This was regarded as a great injustice to the residents of the state.

⁹⁷ *Laws of Illinois*, 1822-23, p. 227.

⁹⁸ *Ibid.*, 164, Section 2.

and representative was required to write on a slip of paper the sum he was willing to accept provided it did not exceed seven dollars per day. The previous compensation had been three dollars and a half. As for other state officers, the auditor was instructed to allow them fifty per cent more than the constitution specified.⁹⁹

Since the available fund of bank notes in the treasury was not sufficient to meet more than half of the state's current obligations the auditor was authorized to issue his warrant bearing six per cent interest for the rest.¹⁰⁰ The notes and warrants circulated side by side, both depreciating until in 1825 the legislature was compelled to make further provision for public officers. Accordingly the appropriation bill of 1825 provided that a committee consisting of the treasurer, the secretary of state and the cashier of the principal bank should determine at the beginning of each month the rate at which the treasurer should pay out warrants and notes during the ensuing month. For the time being the auditor was instructed to rate the notes of the bank at three dollars for one in specie.¹⁰¹ In other words, the state was borrowing money at the rate of two hundred per cent interest. The result was that the ordinary expenses of about \$30,000 were increased threefold without any increase in income.¹⁰² The gap that was made by the destruction of bank notes was soon more than filled by warrants. In a way it would have been better to have retained the notes, for they circulated more freely and their expense to the state was less. Furthermore, the issue of \$107,000 in warrants in a single year served to keep down the value of the notes. The warrants as well as the bank notes were eagerly seized upon by non-residents and speculators for the purpose of paying their state taxes.¹⁰³ Notwithstanding this handi-

⁹⁹*Laws of Illinois, 1822-23*, 166, Section 6.

¹⁰⁰*Ibid.*, Section 7.

¹⁰¹*Laws of Illinois, 1824-25*, p. 182.

¹⁰²Ford, *History of Illinois*, 48; Edwards, *Life and Times of Edwards*, 203.

¹⁰³*Ibid.*, 213-15.

cap, however, the attendant increase in the value of the bank's paper following the retirement of the \$100,000 indicated that the destruction of the notes had engendered a feeling of confidence in the state's integrity. The legislature demonstrated its optimism by the passage of an act which provided that the rate at which state paper should be paid out after February 17, 1827, was to be determined by the same committee that had been performing this service, but that they should hold only quarterly meetings. They were instructed to continue this duty until March, 1830. At each meeting they were to decrease the treasury discount on the notes by at least two and one-half per cent. At this rate, by March, 1830, the notes would be paid out of the treasury on a par with gold.¹⁰⁴

The Illinois courts had been given to an arbitrary scaling down of the debts of individuals against whom the bank had obtained judgment. This practice was ordered discontinued. Thereafter, in cases where judgment was rendered, the defendant could elect to pay specie or bank notes. If he chose the former his debt was reduced to the actual specie value of state bank notes; otherwise he must pay the whole amount of the face of the judgment. The same option was granted to persons who purchased property sold by the bank to satisfy a judgment.¹⁰⁵

The resignation of Senator Edwards to accept the position of minister to Mexico had left a vacancy for the next legislature to fill, but before it assembled Edwards had resigned his post and engaged in the controversy described in connection with the Bank of Edwardsville. Upon the convening of the general assembly he announced his candidacy for his former seat in the United States senate. But his hostility to banks had aroused the opposition of a number of influential men in addition to his old political enemies and he was defeated. Shortly afterwards he announced his candidacy for governor on an anti-bank platform. With a comparatively unknown

¹⁰⁴*Laws of Illinois, 1826-27*, p. 82.

¹⁰⁵*Revised Code, 1829*, p. 164.

opponent and a long record of public service Edwards had the advantage from the start. He traversed the state from end to end, attacking the bank and everyone connected with it. He accused its officers of mismanaging its affairs and of employing methods of business that were a menace to the public welfare. The record of the legislature in the field of bank legislation was subjected to a storm of criticism and baleful consequences of the whole undertaking were pictured to his audiences of backwoodsmen. Edwards was elected by a plurality of five hundred votes, but the legislature continued to be dominated by his enemies.¹⁰⁶

In his inaugural address¹⁰⁷ to the legislature Governor Edwards gave a lengthy review of the history of the state bank and the effect of its paper upon the community. But he considered the note issue itself of minor importance as a cause of the deplorable conditions that prevailed. It was his belief that the constant interference by the legislature between debtor and creditor, as well as the lavish increases in salary voted in the face of an empty treasury were responsible for most of the difficulty. He admitted, however, that the existing state of affairs was not entirely due to unwise legislation, and recognized the natural scarcity of sound currency in pioneer communities and the heavy purchase of public land as contributory causes. On the whole, the address gives an adequate and fairly accurate picture of the conditions that confronted the new administration. But Edwards was not content to stop at this point. He proceeded to berate the officers of the bank for "gross fraud and imposition, aggravated by the clearest moral perjury." He considered past investigations as generous applications of white wash and urged the legislature to exercise its right of impeachment and trial of the delinquent officers.

The more or less general charges contained in the governor's message were followed by specific indictments contained in several special messages. The purport of

¹⁰⁶Ford, *History of Illinois*, 64; Edwards, *Life and Times of Edwards*, 209-12.

¹⁰⁷*Senate Journal*, 1826-27, pp. 46 ff.

these messages was that the late president, directors and cashier of the branch bank at Edwardsville had been guilty of a violation of the state bank act of 1821. William Kinney, a prominent political opponent of Edwards, was accused of mismanaging the affairs of this branch while on the board of directors. The principal charge against him was that he was involved in the loan of \$2000 made upon a piece of real estate which upon execution was valued at \$737 and disposed of for \$500. It will be remembered that the law of 1821 provided that no loan on real estate should be made unless the property was worth double the amount of the loan. The loan, according to Edwards, was made for the purpose of buying a printing press with which to conduct the fight for the adoption of a pro-slavery amendment to the state constitution.¹⁰⁸

Other charges were brought by Edwards against Judge Smith, the cashier of the branch. Smith was accused by the governor of having violated every provision of the bank's charter dealing with the lending of the notes, and of showing the grossest partiality and carelessness in handling the payment of loans. Judge Smith was a politician of considerable ability and succeeded in uniting the opponents of Edwards so effectively that the committee appointed to investigate the charges were favorable to the accused officials from the start. The evidence shows that the branch had been run in a very reckless manner, to say the least. Its officers had so many political alliances that they were forced to show partiality in their handling of the bank's business. After the committee had made a lengthy examination of witnesses and papers and reported favorably to the accused, the House resolved that no evidence had been presented against the accused officials which would "justify the belief that they acted corruptly and with bad faith in the management of said bank."¹⁰⁹

During the same session the governor attacked the cashier of the principal bank in a message which contained nine specific instances of violation of the state law. In

¹⁰⁸*House Journal*, 1826-27, pp. 409-11, 418, 459-61, 504 ff.

¹⁰⁹*Ibid.*, p. 595.

this message, he made the further charge against Judge Smith that he still had in his possession unlawfully a large part of the bank's cash. These charges were likewise referred to a committee which took action similar to that in the Edwardsville case.¹¹⁰ In the meantime, a joint committee appointed to examine the state bank, count its money and find out if the "retirement clause" was being fulfilled reported that the affairs of the bank were being "properly and correctly managed."¹¹¹

Edwards afterwards retracted some of the statements he had made about prominent bank officials, but continued his hostility to banks during the rest of his term.¹¹²

His letter book during this period is largely filled with demands for information as to illegal acts done accompanied by threats of removal from office. These letters were regarded as the attacks of a personal enemy rather than the official acts of a chief executive.¹¹³ Edwards was especially anxious to obtain any information that could be used against his enemies in the legislature and in one letter requests the auditor to prepare for him a list of the members of the general assembly who have failed to meet their debts to the bank together with the respective amounts.¹¹⁴

Notwithstanding the hostility of the legislature to the Edwards policies and the relationship that existed between its members and the bank, some progress was made toward protecting the state's interests in the settlement of the bank's affairs. The salaries of the cashiers of the principal bank and branches were reduced to five hundred and four hundred state paper dollars respectively. Thereafter the questionable practice on the part of bank officers of appropriating large sums for current expenses was forbidden. For all such expenditures a specific appropriation from the legislature was now required.¹¹⁵ The president of the

¹¹⁰*House Journal*, 1826-27, 415, 416.

¹¹¹*Senate Journal*, 1826-7, 242-3.

¹¹²Knox, *History of Banking*, 718.

¹¹³Greene and Alvord, *Governors' Letter Books*, i, 116-24, 133.

¹¹⁴*Ibid.*, 120.

¹¹⁵*Laws of Illinois*, 1826-27, p. 377, Sections 1, 2.

state bank was no longer to receive compensation for his services.¹¹⁶ The cashier was ordered to place all outstanding promissory notes of less than one hundred dollars in the hands of a justice of the peace.¹¹⁷ The small amount of individual deposits was to be returned to the depositors and thereafter none but state and school funds were to be received. In order to protect the state's interest the cashier of the principal bank was empowered to bid in property sold by the bank for judgment if the other bids were too low.¹¹⁸

On the other hand the appreciation of the state paper to sixty or seventy cents led to a demand for further relief to bank debtors. In spite of the fact that unreasonable leniency had already been shown to this class and that any further indulgence would delay the final settlement of the bank's business and thus place a greater burden upon the already embarrassed state treasury, a law for the relief of debtors was passed. It provided that any debtor to the bank who was in default of payment, even if judgment had already been rendered, should be forgiven for his past delinquency and allowed to renew his note or mortgage. However, he must agree to pay the back instalments and interest and any court costs that may have been incurred.¹¹⁹ All courts were forbidden to issue executions against bank debtors for three months after the passage of the act.¹²⁰ In case the proceedings against a bank debtor had gone so far that the sheriff was about to seize the property of the debtor upon an execution, the debtor could by arranging with the bank for the renewal of the obligation, compel the sheriff to return the writ, marked: "Satisfied by the renewal of the debt to the bank by the defendant."¹²¹ It was natural that such a trifling policy on the part of the state should lead to an attitude of con-

¹¹⁶*Laws of Illinois*, 1826-27, p. 377, Section 3.

¹¹⁷*Ibid.*, Section 4.

¹¹⁸*Ibid.*, Section 5.

¹¹⁹*Ibid.*, Section 1.

¹²⁰*Laws of Illinois*, 1826-27, p. 376, Section 2.

¹²¹*Ibid.*, Section 3.

tempt on the part of the debtor. Accordingly, in spite of a most earnest protest on the part of Governor Edwards,¹²² additional inducements were demanded and granted on the ground that former measures had not been effective. This time provision was made for the remission of all interest if a debtor would sign, by September 1, 1829, three new notes by which he agreed to pay his obligation to the bank in three annual instalments, on the first of May, 1830, 1831, and 1832, respectively. If instead of signing the notes he chose to settle in full by September 1, 1829, he was to receive a discount of ten per cent and was absolved from all interest. If he paid by July 1, 1830, his interest was deducted but no further rebate was given.¹²³ The act also provided that as a step toward the final settlement of the bank's business the office of cashier of the principal bank be abolished and the state treasurer made *ex officio* cashier. The work of collection was turned over to the attorney general and the various states attorneys who received two and a half per cent on all collections made.¹²⁴

When the first of September arrived and it was seen that the bank debtors were not taking advantage of the indulgence granted them, Governor Edwards issued a proclamation announcing his intention to show no further mercy in his prosecution of the state's claims.¹²⁵

The same year (1829) Governor Edwards became involved in another controversy with the treasury department at Washington. The state was entitled to draw as a school fund from the federal treasury three per cent of the proceeds from the sale of public land in Illinois. The secretary of the treasury became convinced that this money was not being put to its intended use and ordered the annual payment for 1829 to be withheld. Governor Edwards was a strong believer in state's rights and resented any interference on the part of a federal officer. Consequently

¹²²Governor's message, 1828.

¹²³*Laws of Illinois*, 1828-29, pp. 167-69.

¹²⁴*Ibid.*

¹²⁵Greene and Alvord, *Governors' Letter Books*, i, 148, 149.

he demanded the immediate payment of the money; but it was withheld until the secretary's protest was heeded. The whole difficulty arose over the validity of the practice of the school fund commissioners in investing the funds in state bank notes. These notes were then exchanged at the auditor's office for certificates of indebtedness and the state thereby came into possession of more currency with which to meet its heavy obligations. Edwards justified this diversion of the school money from its proper channels with the assertion that as soon as the state could arrange its disordered finances it would deal liberally with its common schools.¹²⁶

The year 1830 witnessed another struggle for the governorship, with the bank as the leading issue. Lieutenant-Governor Kinney, who it will be remembered had been under suspicion during the investigation of the Edwardsville branch, was a candidate against John Reynolds, formerly a judge of the supreme court of Illinois. It was but natural that the whole Edwardsville scandal should be unearthed and freely aired during the campaign. Kinney took the position that he should be rewarded for the years of labor and sacrifice spent in trying "to bolster up the state bank." He stated that over twenty thousand dollars in specie was due him at the time the bank opened. He accepted bank notes at par as a matter of patriotic duty to the state and subsequently paid most of them out at thirty to thirty-five cents on the dollar. He cited the favorable showing of the Edwardsville branch as well as his exoneration by the legislature as the best evidence of his ability and honesty in an office of trust.¹²⁷

The opponents of the bank had an able candidate in Judge Reynolds. In his speeches during the campaign he insisted that he had always opposed the bank, that he voted against its establishment, and that the people would have to bear a heavy burden of taxation on account of the sins of bank officials, like his opponent. The friends of

¹²⁶Edwards, *Life and Times of Edwards*, 548, 549; *Illinois Intelligencer*, February 5, 1831.

¹²⁷*Illinois Intelligencer*, April 10, 1830.

the bank, on the other hand, pointed out that Judge Reynolds was a borrower from the bank and as a member of the legislature could always be counted upon to support the various relief measures with which his party appealed to the bank debtors for support at the polls. In spite of these accusations, however, Judge Reynolds was elected.

Upon the legislature which met in December, 1830, there devolved the difficult task of providing for the liquidation of the state bank, whose charter was to expire during the next year. The legislature of 1821 had pledged all of the state's resources present and future to the redemption of the bank's notes, with the expectation that the profits of the business would be more than ample to provide for a final settlement of all liabilities. But the nearer the day of reckoning approached, the less able was the state to meet its obligations. The bank's resources had been allowed to dwindle away; while the condition of the state's finances was daily becoming more precarious.

In his report of January 1, 1831, the state treasurer stated that the amount still due the bank was \$98,639.52. Of the three hundred thousand dollars issued in 1821, \$147,742 had been redeemed (mostly by a balancing of debits against credits) and destroyed. There remained, therefore, \$152,258 which the state must be prepared to redeem before July 1. To meet this obligation there was to the bank's credit \$14,899.96 in cash, while the state had to its credit about \$20,000 more. The buildings of the bank and branches were estimated to be worth \$5,800.42. The accrual of the state's ordinary revenue and the collection of some of the bank's debts would help swell the total available resources.¹²⁸ At the same time, however, a large amount of auditor's warrants was outstanding and the ordinary expenses of the state government had to be met.

In his inaugural message¹²⁹ Governor Reynolds advocated the winding up of the bank's business as rapidly as consideration for the welfare of the state and the debtors would permit. He urged the legislature to uphold the

¹²⁸*Senate Journal*, 1830-31, pp. 181-83.

¹²⁹*House Journal*, 1830-31, p. 63.

credit and character of the state by providing for the prompt payment of its obligations. It required courage and a high sense of public duty to disregard the widespread sentiment in favor of repudiation.¹³⁰ Nevertheless a bill was passed by both houses authorizing the governor to borrow a hundred thousand dollars at six per cent for the purpose of aiding in the redemption of bank paper and auditor's warrants, and replacing the money wrongfully taken from the school funds. The loan was to be payable after 1850 in specie or notes of the United States Bank.¹³¹ Governor Reynolds promptly entered into a contract with Samuel Wiggins of Cincinnati for the loan of the entire amount but the state treasurer was not permitted to draw upon Mr. Wiggins for more than thirty thousand dollars before October 1. Governor Reynolds very wisely based his calls for the various payments upon accurate data as to the immediate needs of the treasury and in this way reduced the interest payments to the smallest possible amount.¹³² The following account taken from Governor Ford's *History of Illinois* gives a vivid picture of the effect of the loan upon the people:

"The money was obtained, and the notes of the bank redeemed, the honor of the state was saved but the legislature was damned for all time to come. The members who voted for the law were struck with consternation and fear at the first sign of public indignation. Instead of boldly defending their act and denouncing the unprincipled demagogues who were inflaming the minds of the people these members when they returned to their constituents went meanly sneaking about like guilty things making the most humble excuses and apologies. A bolder course of enlightening the public mind might have preserved the standing of the legislature and wrought a wholesome revolution in public opinion then much needed. But as it was the destruction of great men was noticeable for a number of years. The Wiggins loan was long a bye word

¹³⁰Ford, *History of Illinois*, 106.

¹³¹*Laws of Illinois*, 130-31.

¹³²Greene and Alvord, *Governors' Letter Books*, i, 162.

in the mouths of the people. Many affected to believe that Wiggins had purchased the whole state, that the inhabitants for generations to come had been made over to him like cattle; and but few found favor in their sight who had anything to do with the loan."¹³³

Several other laws relating to the bank were passed at the same session. One of them created a commission for the purpose of counting and destroying bank notes. It was to meet every three months to burn all the notes redeemed during that time, until all the original issue had been destroyed. The membership of the commission consisted of the governor, the secretary of state and the state treasurer.¹³⁴

An act for the further relief of bank debtors provided that all who had not availed themselves of the relief act of 1829 should be permitted to substitute for their regular interest bearing obligation a non-interest bearing note payable on or before May 1, 1832. If this note was paid before December 1, 1831, a six per cent rebate was to be deducted from the principal. In order to dispense with the regular machinery of the bank as soon as possible, it was provided that after July, 1832, the work of collecting notes and mortgages due the branches should be assigned to the attorney general and the states attorneys. All bank property was to be turned over to the state treasurer as had been done in the case of the principal bank. Each branch cashier was allowed two hundred and fifty dollars for his services in closing up his work, his office to expire on the first Monday in December 1832. After that date all bank property was to be sold by the attorney general and the states attorneys.¹³⁵

Even with the instalments of the Wiggins loan becoming available at frequent intervals there was danger of a shortage of specie for the redemption of notes. Accordingly it was provided that whenever a note was presented at the treasury and the money for its redemption

¹³³Ford, *History of Illinois*, 107.

¹³⁴Laws of Illinois, 1830-31, p. 190.

¹³⁵*Ibid.*, p. 182.

was not available, a state bond bearing six per cent interest should be issued, redeemable at the state's pleasure, provided the holder received two months' notice. These bonds were receivable for all dues to the state. The treasurer was instructed to devote all specie not needed for current expenses to the redemption of bank notes.¹³⁶

In the meantime the president and directors of the principal bank as well as the various state officers were experiencing considerable difficulty in inducing James M. Duncan, the late cashier of the bank, to surrender the property of the bank to the state treasurer. The act of January, 1829, required that he make the transfer by March 1 of that year, but he left Vandalia on account of ill health and failed to comply with the law. On November 29 of that year the board of directors, having learned of his delinquency, demanded that he surrender the bank's property at once. He promised to do so immediately but did not keep his word. In April, 1830, the circuit attorney at the request of the board entered suit against Duncan and his bondsmen for one hundred thousand dollars damages.¹³⁷ In an interview with the editor of the *Illinois Intelligencer*, Duncan stated that he considered the law abolishing his office as defective in not providing for a thorough checking up of the transfer and therefore was not willing to assume the responsibility.¹³⁸ The members of the legislature determined upon getting possession of the money and accounts of the bank without waiting for the slow process of court procedure, sent a joint committee to Duncan's house and instructed them to bring the property in question back with them. Duncan was not at home and his wife declined to give it up on the grounds that suits were in progress against her husband and he needed the vouchers in the preparation of his case.¹³⁹ Two weeks later Duncan notified a committee of the senate that he would leave the books of the bank

¹³⁶*Laws of Illinois*, 1830-31, 181.

¹³⁷*Senate Journal*, 1830-31, pp. 172 ff.

¹³⁸*Illinois Intelligencer*, July 17, 1830.

¹³⁹*Senate Journal*, 1830-31, p. 189.

where they could get them but would not deliver them in person.¹⁴⁰ Later at a meeting held by the committee Duncan was present and a compromise was reached by which the legislature was to pass a law providing for three referees to examine the books and agree upon a settlement. Accordingly the act of February 1 was passed providing for this method of settling the controversy. It was specified that the final settlement must be ratified by the general assembly and that Duncan was to be allowed no salary for services since March 1, 1829. However, Duncan was compelled to agree in writing that he would abide by the decision of the referees and transfer all the bank's property to the state treasurer.¹⁴¹ Before a settlement was reached the legislature by a joint resolution demanded that Duncan turn over the money of the bank at once, but he refused on the ground that referees had been provided to settle his accounts and that he would await their decision.¹⁴² When the legislature met in December, 1832, the treasurer reported that the books of the principal bank were still in the hands of the three auditors. The cashiers of the branches had been allowed from July 4 to the first Monday in December to post their books and hand them over to the treasurer, but only two had done so.¹⁴³ Such incidents as these, while unimportant in themselves, are valuable for the light they throw upon the petty and trifling methods that characterized the management of the state bank.

With the help of the Wiggins loan the work of redeeming the outstanding notes was carried on so expeditiously that by January 5, 1832, \$289,000 of the issue of three hundred thousand had been redeemed and destroyed.¹⁴⁴ Three years later the treasurer reported that \$6554.50 worth of the notes had not yet been presented. Considering the comparatively large per cent of notes

¹⁴⁰ *Senate Journal*, 1830-31, p. 273.

¹⁴¹ *Laws of Illinois*, 1830-31, pp. 178-179.

¹⁴² *Senate Journal*, 1830-31, p. 359.

¹⁴³ *Ibid.*, 1832-33, pp. 72, 73.

¹⁴⁴ *Ibid.*, 1832-33, p. 240.

that were liable to be destroyed or mislaid, this is not a surprising proportion of the whole issue.¹⁴⁵

The legislature, either for political reasons or on account of the bank's debt, passed another relief law for debtors to the bank. It was provided that in case any debtor settled his account with the bank before January 1, 1834, all of the interest and ten per cent of the principal should be deducted provided the total rebate did not exceed twenty-five per cent. The law further provided that if in the judgment of the court the settlement of a decedent's obligations with the bank would distress a widow and orphans the court could declare the debt cancelled.¹⁴⁶ As a climax to the long series of acts granting relief to debtors the supreme court, the following December (1833), in the case of Linn vs. State Bank to which reference has already been made, decided that the act authorizing the bank was unconstitutional.

The effect of this release of debtors from all obligation to the bank was to increase the already great burden of the state by the amount that ultimately would have been collected from these persons.¹⁴⁷ Notwithstanding the effect of the above decision, the legislature (1834-35) passed the benefit act of February 14, 1835 in the evident hope of half coercing, half coaxing the debtors to settle and ease their consciences. The act provided that all persons still indebted to the bank should be allowed to pay their debts in three annual instalments, and that all past interest and twenty-five per cent of the original principal should be remitted at the time of granting the new accommodation. However, if a person took advantage of this offer, all right to the use of a plea of unconstitutionality was to be forfeited.¹⁴⁸

In the preparation of his annual report¹⁴⁹ for 1834 the treasurer of the state made a thorough examination of the books and papers of the bank and branches with a

¹⁴⁵*Ibid.*, 1834-35, p. 295.

¹⁴⁶*Laws of Illinois*, 1832-33, p. 584.

¹⁴⁷*Alton Spectator*, December 21, 1833.

¹⁴⁸*Laws of Illinois*, 1834-35, p. 67.

¹⁴⁹The report of the treasurer upon which the contents of this paragraph are based is found in *Senate Journal*, 1834-35, p. 295.

view to furnishing the legislature with a complete resumé of their affairs; but in every case careless bookkeeping prevented his obtaining reliable data. The branch of Shawneetown had been operated during the entire six year term of its first cashier without any account being kept against debtors, or any other reliable record of its operations made. The second cashier had tried to supply this deficiency but found the task a hopeless one. The cashier at Brownsville had but recently been appointed to the position and was unable to be of assistance to the treasurer. The officers of the principal bank upon relinquishing their duties in December, 1832, had rendered an account to the state but the treasurer found it to be incomplete and unreliable. However an analysis of its various items is of some value in so far as it reveals the character of the whole undertaking and its great cost to the state. The statement rendered by the bank is as follows:

Debit	
To capital	\$209,910.38
To balance	18,550.39
To amount of discounts received.....	59,059.21
	<hr/>
	\$377,520.48
Credit	
Amount of notes received from principal bank.....	\$183,424.99
Expenses of bank and branches	57,302.26
Notes, etc., due the bank.....	79,510.34
Allowed for two per cent interest.....	5,403.23
Discounts under act of 1829	1,380.04
Allowed for prompt payment.....	2,140.00
Due by late cashier	27,439.21
Real estate unsold and suspended interest.....	5,129.26
Loss on sale of real estate.....	4,689.50
Appropriations paid at Shawneetown.....	832.50
Profit and loss, Brownsville	3,764.96
Banking house (cost)	6,305.62
Cash received previous to December 3, 1832.....	138.57
	<hr/>
	\$377,520.48

The first item charged to the bank, "capital," represents the total issue of notes. These had been turned over

by the state to the bank and branches and they had loaned them out at six per cent interest which amounted to \$59,059.21, the third item in the liability column. The remaining item, "balance," seems to have been merely a book-keeping device to make the two columns balance. On the asset side of the statement the bank is credited with having returned to the state \$183,424.99 of the total note issue but the books of the state treasurer showed that only \$162,326.63 had been repaid by the bank. At the time the enterprise was projected it was expected that its earnings would exceed the total cost to the state and so far as the current expense account of the bank is concerned, the statement shows it to have been almost \$2,000 less than the total earnings; but Mr. Dement, the state treasurer, pointed out that a large part of the discounts earned was uncollectible and that the \$5,403.23 allowed in interest to note holders, \$1,380.04 and \$2,140.00 granted as rebates for prompt payment of loans, should be added to the current expense account. The bank had already lost \$3,764.96 from bad debts and bad management at Brownsville and \$4,689.50 on real estate bid in at judgment sales under its own mortgages and later sold at a sacrifice. The banking house at Vandalia is listed at its original cost but Mr. Dement estimated that this item as well as "real estate unsold" and "notes, etc., due" would suffer a great shrinkage. In January, 1835, in fact, the book assets of the bank were listed at \$109,127 but on account of the death or insolvency of a number of debtors as well as the decision that the bank act was unconstitutional the treasurer estimated that their real value was between seven and eight thousand dollars. An examination of the treasurer's reports for a number of years after this date shows that the estimate was not far wrong.¹⁵⁰ At the time the above statement was made (December, 1832), \$27,439.21 in money and other valuables was still in the hands of the late cashier, Mr. Duncan,

¹⁵⁰Received from bank's assets November 30, 1834, to November 30, 1835, \$2,502.18; from November 30, 1835, to November 30, 1836, \$1,053.94; from July 1, 1837, to November 30, 1838, \$169.00; from November 30, 1838, to November 30, 1839, \$385.54.

pending an examination of his accounts, but as has been noted in another connection this amount was soon paid into the state treasury.

From data obtained from numbers of the *Illinois Advocate*, Vandalia, and from the report of the treasurer, the writer has compiled a table showing the general condition of each of the four branches at the expiration of the bank's charter:¹⁵¹

There is no accurate record of the total loss entailed by the state from the operations of the bank. Such a record would include the loss of revenue from depreciated currency, increased appropriations necessary in order to meet the state's obligations with paper money, the loss from loans which were never repaid and the interest on indebtedness incurred because of the lack of dependable funds in the treasury. The last named item would include the interest paid on auditor's warrants, fund bonds, and on the Wiggins loan.

Ford estimates that the state lost more than \$150,000 by accepting bank notes at the treasury and that its expenditures were increased \$150,000 more by meeting its obligations with this paper. He also estimates the amount of loans never repaid at \$100,000.¹⁵² The *Alton Spectator* in 1834 estimated that because of the bank the state debt up to that time had been increased by \$460,000.¹⁵³ As

¹⁵¹ *Illinois Advocate*, October 14, 28, November 11, 1831, January 20, 1832; Treasurer's Report in *Senate Journal*, 1834-35, p. 295. The starred items are taken from the treasurer's report.

	Edwards- ville	Browns- ville	Pal- myra	Shawnee- town
Bank notes originally received.....	\$83,516.00	\$48,834.00	\$47,265.00	\$84,685.00
Expenses	11,501.31	9,315.88	7,588.41	21,576.31
Probable loss	10,000.00	unknown	2,924.51	unknown
Amount of loans repaid.....	78,064.38	unknown	36,467.18	unknown
Amount still due	21,982.07	unknown	4,410.17	44,140.85
Bank notes retired.....	66,253.00	26,989.94	42,563.36	44,460.57
Debts in collector's hands.....	20,764.19	*7,686.57	not given	*35,992.98
Paid by debtor under relief act	966.82	628.00	335.25	*667.31

¹⁵² Ford, *History of Illinois*, 48.

¹⁵³ January 25, 1834.

Knox points out, estimates of the loss to the state treasury do not afford an accurate view of the total damage inflicted by the state bank. The losses to individuals, the injury inflicted upon the economic activities of a pioneer community and the impairment of the state's credit cannot even be estimated.¹⁵⁴ According to a writer of the period, the industry and thrift that characterized the three years following the dissolution of the bank brought more genuine relief to debtors "than could ten such banks."¹⁵⁵

¹⁵⁴Knox, *History of Banking in the United States*, 716.

¹⁵⁵W. H. Brown, in *Chicago American*, December 25, 1840.

CHAPTER IV

BANKING AND INTERNAL IMPROVEMENTS.

With the winding up of the affairs of the old state bank in 1831 came a brief period of relief so far as the existence of local banks of issue was concerned. The legislature not only defeated all banking projects that were presented to it at its sessions in 1830-31 and 1832-33, but acts of incorporation of all sorts contained clauses prohibiting the exercise of banking powers. In the senate, however, there was a strong sentiment in favor of establishing a bank on a specie basis; in fact, in 1833 a project of this character was lost by a single vote.¹ Failing in this effort the friends of the proposed measure sought to prevail upon Governor Reynolds to call the legislature in special session, but he refused to act on the ground that conditions were not yet ripe for such an institution.²

In the gubernatorial campaign of 1834 General Duncan, the successful candidate, although a partisan of the United States bank refused to make that institution a local issue and thus avoided the alienation of the Jackson men.³ Governor Reynolds resigned a short time before the inauguration of Governor Duncan, the office being filled for the time being by Acting Lieutenant-Governor Ewing, a friend of state banking. In his message to the legislature which assembled in December, 1834, Mr. Ewing urged the immediate establishment of a state bank "upon a solid gold and silver reality."⁴ The next day Governor Duncan delivered his inaugural address in which he asked the legislature to deal with the banking question with the greatest caution. He granted that "banks may be made useful in society" but he insisted that a system of banking which would successfully meet the peculiar conditions prevailing in Illinois had not yet been worked out.⁵

¹*Sangamo Journal*, March 9, 1833.

²*Alton American*, November 22, 1833.

³Short, *History of Morgan County*, 691.

⁴*Senate Journal*, 1834-35, p. 12.

⁵*Ibid.*, 13.

Meanwhile the state had begun to recover from the follies of the fiat paper days in spite of the fact that occasional foreign bank notes found their way into the channels of local trade. The treasury was now able to meet its obligations with cash and the general prosperity of the community was equally encouraging.⁶ As this situation continued, the need of more currency and adequate banking facilities became recognized. After the burning of the notes of the old state bank and the failure of so many of the "paper money mills" of the Middle West and South, there was little available currency for the handling of the increasing volume of trade. Aside from a few notes of the Bank of the United States and still fewer United States silver coins, Spanish, French and Mexican pieces constituted the only generally acceptable medium of exchange.⁷

In addition to the scarcity of money, a number of other circumstances seemed to point the legislature to establishment of a second state bank. In the first place, it was predicted that the closing of the United States Bank would cause widespread distress unless the states took immediate steps to fill the gap left by it.⁸ The other states were anticipating an era of great prosperity by authorizing the establishment of banks of issue, and it was argued that their notes would flood Illinois unless a local bank were established as a measure of self-protection.⁹ Lastly

⁶Ford, *History of Illinois*, 170.

⁷Lorenzo Bull, in *Illinois Bankers' Association Reports*, 1901, p. 20.

⁸*Sangamo Journal*, November 24, 1832, September 29, 1833, and September 22, 1832.

⁹*Illinois Advocate*, Vandalia, March 16, 1833. *Sangamo Journal*, February 9, 1833. The following table taken from Dewey, *Financial History of the United States*, 255, shows the rapid expansion of banking at this period:

Year	Number of banks	Capital (millions)	Circulation (millions)	Loans (millions)
1829	329	110.2	48.2	137.0
1834	506	200.0	94.8	324.1
1835	704	231.2	103.7	365.2
1836	713	251.9	140.3	457.5
1837	788	290.8	149.2	525.1

this same wave of speculative prosperity which had gradually been moving westward was beginning to be felt in Illinois.¹⁰ Continued peace among the nations, together with the rapid expansion of the United States, had stimulated the sale of public lands to an enormous degree. This in turn led to the formulation of elaborate systems of internal improvement in order that a substantial increase in land values might result.¹¹ By 1835 the Illinois speculator had just reached the point where he was demanding the "accommodation" which could not be had without access to a bank plentifully supplied with notes.¹²

The Democrats in the Illinois legislature which met in 1834-35 were supposedly hostile to all banks, while the Whigs were committed to a federal as opposed to a state bank. By a combination, however, of the Whig forces with those Democrats who interpreted President Jackson's hostility to the Bank of the United States as an endorsement of the state institutions, a bill for the creation of a new state bank was passed by both houses. Ford contends that the necessary majority of one vote in the lower house was obtained by trading a states attorneyship for it and that similar inducements were held out to senators.¹³ In the council of revision Governor Duncan opposed the measure, but the rest of the members gave it their sanction and it became a law on February 12, 1835.¹⁴

The main provisions of the charter of the new state bank were as follows: Of the authorized capital of one and one-half million dollars, all but one hundred thousand dollars was to be sold to individuals. The remaining shares were to be issued to the State of Illinois whenever the legislature saw fit to provide the money.¹⁵ A further stock issue to individuals of a million dollars might be made when conditions warranted it.¹⁶ The charter was

¹⁰Ford, *History of Illinois*, 170.

¹¹Dewey, *Financial History of United States*, 224, 225.

¹²Ford, *History of Illinois*, 170.

¹³*Ibid.*

¹⁴*Sangamo Journal*, May 13, 1842.

¹⁵*Laws of Illinois*, 1834-35, p. 7, Section 1.

¹⁶*Ibid.*, Section 2.

to expire January 1, 1860.¹⁷ Until then the bank had full power to discount bills and notes, receive desposits, buy and sell bullion and bills of exchange and issue bank notes.¹⁸ The ownership of real estate, aside from the land upon which the bank buildings might be built, was prohibited.¹⁹ In view of the freedom with which the bank's funds were used in speculation, it is important to note that the directors were specifically forbidden to deal directly or indirectly in the purchase or sale of any goods or wares whatever.²⁰ The movement of population northward led the legislature to locate the principal bank at Springfield instead of Vandalia, which continued, however, to be the capital until 1839. In order to appease the people of Vandalia, the bank was required to maintain a branch in that place.²¹ If subscriptions for more than the authorized one million four hundred thousand dollars worth of stock were received, it was provided that the excess should be deducted: first, from the amounts subscribed by non-residents; second, from subscriptions by corporations; third, from subscriptions for more than one thousand dollars worth of stock; fourth, from other subscriptions.

Each subscriber was required to make a first payment of ten dollars in specie, or its equivalent, for each share of stock purchased.²² The nine directors were each required to own at least ten shares of stock and must be citizens of Illinois. In voting, the method already described in connection with the territorial Bank of Illinois, of giving to the small stockholder more than a proportional voice, was adopted.²³ The selection of officers for the bank was left to its board of directors. In order to augment its available capital the bank was empowered to receive on deposit or to borrow any sum not exceeding one million dollars

¹⁷*Laws of Illinois, 1834-35*, p. 7, Section 3.

¹⁸*Ibid.*, Section 4.

¹⁹*Ibid.*, Section 5.

²⁰*Ibid.*, Section 6.

²¹*Ibid.*, Section 8.

²²*Ibid.*, Section 10.

²³*Ibid.*, Section 11.

and to re-loan it at not more than ten per cent upon Illinois real estate. The restriction was made, however, that no loan should exceed half the value of the pledged property and that no borrower should be granted a loan from this fund for a longer period than five years.²⁴ When the bank had accumulated two hundred fifty thousand dollars in specie, the directors were to notify the governor who in turn should send persons to count the money and to receive the oaths of the bank's officers to the effect that the money was the bona fide property of the bank. As soon as the governor was satisfied that the bank had complied with the terms of its charter he was to proclaim through at least four Illinois newspapers that the bank was ready for business.²⁵ The payment of the remaining instalments on the bank's shares was left to the discretion of the directors who were empowered to declare shares forfeited if the owner failed to respond to a call.²⁶ The lawful rate of interest for loans of sixty days and less was fixed at six per cent. Other loans were to bear a rate of eight per cent.

The legislature made an effort to safeguard the interest of the holders of the bank's notes by providing: (1) The outstanding issue of notes should never exceed two and one-half times the amount of paid up capital; (2) The amount of loans and discounts should never exceed three times the paid up capital; (3) Each director was personally liable for the violation of these provisions unless he had caused a written protest to be incorporated in the minutes;²⁷ (4) If any note holder, within ten days after making the demand, failed to receive specie to the full face value of a state bank note, the bank was required to go into liquidation; (5) Furthermore, a penalty of ten per cent per annum must be paid to all such note holders until their notes were redeemed;²⁸ (6) Finally, no note of

²⁴*Laws of Illinois*, 1834-35, p. 7, Section 18.

²⁵*Ibid.*, Section 19.

²⁶*Ibid.*, Section 20.

²⁷*Ibid.*, Section 24.

²⁸*Ibid.*, Section 26.

a less denomination than five dollars might be issued.²⁹ The legislature is further to be commended for providing that there should not be a repetition of the disgraceful relief laws which had characterized the history of the old state bank.³⁰

The constitution of 1818, as has already been noted, specified that there should be no other banks in the state save a state bank and the two territorial banks which were then in existence. The charters of the old territorial Bank of Illinois at Shawneetown and the City and Bank of Cairo corporation had never been declared void although the former concern had gone out of business in 1823 and the latter had never accepted its charter. Consequently it was assumed that their charters were forfeited by non-use.³¹ Nevertheless in their eagerness to share in the coming tide of prosperity and internal development, as Lyman J. Gage puts it,³² the Bank of Cairo "was galvanized into a sickly life" at Kaskaskia, and the Bank of Illinois corporation was reorganized and began business late in 1834.

The twenty year charter of the Bank of Illinois³³ would have expired on January 1, 1837, had not the legislature by an act approved February 12, 1835,³⁴ extended its lease of life until 1857. The old charter was amended in several important respects. In the first place, the owners of the territorial bank who held stock in the new institution were exempted from the forfeiture of their stock and all previous payments upon it, if they were unable to meet the calls of the directors for instalments. On the contrary, they were entitled to the payment of all past instalments, less interest and dividends. Secondly, the governor was required to subscribe for the one hundred thousand dollars worth of stock reserved for the

²⁹*Laws of Illinois*, 1834-35, p. 7, Section 34.

³⁰*Ibid.*, Section 31.

³¹Greene and Thompson, *Governors' Letter Books*, ii, 60, 61.

³²*World's Congress of Bankers and Financiers*, 428.

³³This bank should not be confused with the new state bank of Illinois.

³⁴*Laws of Illinois*, 1834-35, p. 21.

state in the old charter.³⁵ This he was to sell at auction at the highest premium, the profit to go to the state.

There were many more or less disinterested persons who were opposed to allowing the Bank of Illinois to resume business in the face of a constitutional prohibition of all non-state banks.³⁶ The question was at length taken into the courts where, first, the validity of the original charter was attacked on the ground that Congress had never given to the Territory of Illinois the power to establish banks; secondly, the act of 1825 was held to charter a private institution in contravention of the Illinois constitution. The question was finally disposed of by the supreme court of the state in *People vs. Marshall*,³⁷ when it was decided that the legislature of the territory had acted within its rights in chartering banks and that the charter then granted had never passed out of existence.

The books for subscriptions to the stock of the state bank were opened on April 10, 1835³⁸ and in less than three weeks the one million four hundred thousand dollars worth of stock was several times over-subscribed,³⁹ the total applications for stock amounting to \$8,007,500.⁴⁰ In accordance with Section 10 of the charter, the subscribers were divided into four classes, (1) non-residents, (2) corporations, (3) those resident citizens who subscribed for more than a thousand dollars worth of stock, (4) other persons. Beginning with class four and proceeding in reverse order to the other classes the shares were to be given out as long as they lasted. John Tillson of Hillsboro, Thomas Mather of Kaskaskia, Godfrey, Gilman and company of Alton, Judge Smith⁴¹ of the

³⁵*Laws of Illinois, 1816-17*, p. 11.

³⁶Greene and Thompson, *Governors' Letter Books*, ii, 59, 60.

³⁷*I Gilm.*, 672.

³⁸*Sangamo Journal*, April 11, 1835.

³⁹*Ibid.*, May 2, 1835.

⁴⁰*Ibid.*, May 23, 1835. *Chicago Democrat*, May 20, 1835.

⁴¹One of the persons attacked by Governor Edwards for the mismanagement of the Edwardsville branch of the old state bank.

state supreme bench, and Samuel Wiggins of Cincinnati⁴² had contracted in the East for large amounts to be invested in state bank stock. The charter of the bank sought to avoid this very thing by giving the preference to the small resident subscribers. Hence, in order to be included in this favored class, these men, according to Ford, empowered thousands of persons within the state to act as their agents in subscribing for the stock and thus secured a controlling interest. When the commissioners in charge of the subscription lists undertook the work of apportionment of shares, a struggle for the control of the bank was precipitated between Judge Smith on the one side and the other persons just named on the other. The first clash came when a commissioner moved that shares bought by residents on their own account be separated from those bought by them as agents for others. Judge Smith favored the motion and expressed his willingness to take oath to the effect that he owned and had paid for with his own money every share of stock subscribed for by him. Through the preponderating influence of the other heavy investors, the motion was lost and the bank was thereafter controlled by the Tillson, Mather, Godfrey-Gilman interests. Mather was made president of the bank and a directorate was chosen which even Ford admits was as capable as could be found in the state.⁴³ The bank during its entire existence continued to be dominated by non-resident shareholders.⁴⁴

Having satisfied the governor that it had in its vaults the requisite two hundred and fifty thousand dol-

⁴²The capitalist who loaned \$100,000 to the state in 1831.

⁴³This account of the struggle for the control of the state bank is taken from Ford, *History of Illinois*, 174, and from the article on the state bank in the *Illinois Annual Register and Business Directory* (Chicago, 1847).

⁴⁴Of the 14,000 shares of \$100 each, five persons owned 7539, as follows: Samuel Wiggins, 1642; M. J. Williams, 577; Griggs and Company, 1202; W. S. Gilman, 2567. Four of the five lived in Cincinnati, Mr. Gilman being the only resident of Illinois. Eleven others controlled 3948 shares, making a total of 11,487 shares in the hands of but sixteen persons. *Sangamo Journal*, March 5, 1836.

lars in specie, the principal bank was opened for business in July, 1835.⁴⁵ Before the end of the year branches had been established at Galena, Jacksonville, Alton, and Chicago in addition to the branch located at Vandalia by the legislature.⁴⁶ Galena and Alton were probably chosen because of the great interest that centered in their development and because, as will be seen, the leading investors in bank stock were heavily involved in the projects that were being carried on at these points. The legislature having by the act of January 16, 1836, authorized three additional branches⁴⁷ establishments were eventually opened at Danville, Quincy, Belleville, and Mt. Carmel.⁴⁸ Mr. N. H. Ridgely, who had secured his training as chief clerk of the branch of the United States Bank at St. Louis,⁴⁹ was elected cashier of the principal bank at a salary of three thousand dollars. He was allowed one teller at a thousand dollars and two clerks at eight hundred dollars each. In addition, President Mather was voted twenty-five hundred dollars per annum for his services. By the time the nine branches were put into operation the list of officers had been increased to thirty-five and the annual salary list to \$30,600.⁵⁰

Even with the widely distributed system of branches, it was impossible for a person offering real estate as security to deal with the bank directly, hence the plan was adopted of designating persons in different localities as inspectors for the bank. These persons investigated, at the borrower's expense, the character of the property offered as security and made an examination of the title.⁵¹ In accordance with the charter, the amount

⁴⁵*Illinois Advocate*, July 8, 1835.

⁴⁶*Ibid.*, February 17, 1836; Bross, *History of Chicago*, 41.

⁴⁷*Laws of Illinois*, 1835-36, pp. 237, 238.

⁴⁸*Reports of Session*, 1839-40, p. 285.

⁴⁹U. S., H. of R., Comm. Reports, 1836-37, Doc. no. 193, p. 607.

⁵⁰*Reports of Session*, 1839-40, pp. 285, 286.

⁵¹*Sangamo Journal*, August 15, 1835. A fee of from three to ten dollars was paid. *Special Report of Invest. Comm., Illinois General Assembly*, 1836-37, p. 36.

loaned upon real estate could not exceed fifty per cent of the valuation put upon it by the bank's representatives. No loans upon town property were allowed⁵² and loans upon personal security were confined to the discounting of business paper, for the reason that the bank was not a government depository, hence was constantly subject to a loss of its specie on account of the heavy land sales.⁵³ The depository at St. Louis⁵⁴ accepted the notes of the state bank as far as private business was concerned, but when it was preparing to forward government deposits it was accustomed to send local bank notes home for redemption, a practice which compelled the Illinois bank to curtail its loans. All discounts were passed upon at the daily meeting of the exchange committee of the board of directors and were then submitted to the full board at its biweekly meeting. The exchange committee consisted of the president, the cashier and two directors chosen monthly and derived its name from the fact that its original function was to pass upon the purchase of bills of exchange. This branch of the bank's business received special attention and encouragement for the reason that bills of exchange were considered "safer" and "more manageable" than the ordinary accommodation paper even if the profits were not so large. Moreover, bills of exchange on eastern cities were readily convertible into specie if an emergency demanded it, while local accommodations could be called in only with the greatest difficulty. For this reason it was contended that eastern bills purchased by the bank could be used as the basis of a still larger volume of domestic loans.⁵⁵ The directors were de-

⁵²*Special Report, Invest. Comm., Illinois General Assembly, 1836-37, p. 36.*

⁵³*Sangamo Journal*, March 5, 1836.

⁵⁴*Ibid.*, May 21, 1836. After the disastrous failure of the Bank of Missouri, that state was left without any banking institution save the branch of the United States Bank which was soon to go out of existence. The legislature refused to charter any more banks, so the large federal deposits were given to the St. Louis "agency" of the Commercial Bank of Cincinnati. *U. S. H. of R., Comm. Reports, 1836-37*, No. 193, p. 598.

⁵⁵*Special Report, Invest. Comm., Illinois General Assembly, 1836-37, p. 40.*

termined to prevent a depreciation of the bank's notes and yet desired to accomplish this aim with a minimum payment of specie for their redemption. This policy of trying to avoid both "Seylla and Charybdis" at times compelled the adoption of some extraordinary measures. For instance, while the negotiations were in progress with the St. Louis depositary which led to its agreeing to accept state bank paper under the conditions noted above, a large amount of the Illinois notes accumulated at St. Louis. Since the depositary had not yet decided to accept them at par, merchants sold them to brokers at a discount of two or three per cent rather than go to the trouble of sending them back for redemption. This caused great anxiety on the part of the state bank officials, and funds to the amount of nineteen thousand five hundred dollars were promptly forwarded to an agent of the state bank at St. Louis with the instruction that he should buy all the Illinois paper offered, at one per cent discount. He had bought very little of the paper when the depositary agreed to accept Illinois paper and the notes went to par. The directors of the bank were then accused of making a profit by speculating in their own paper, but testified before a committee of the legislature that the small profit made was more than offset by the expenses incurred.⁵⁶ On another occasion, President Mather purchased sixteen hundred dollars worth of the bank's paper from a New York broker at a discount of one and three-fourths per cent, his excuse being that it was liable to fall into the hands of westward bound immigrants who would present it for redemption.⁵⁷.

The bank had, however, a most effective means of protecting its small supply of specie. Instead of having a common form of bank note, redeemable at the parent bank or any of its branches separate issues were provided for each branch. Consequently, notes bearing the name of one branch were sent to another and distant branch

⁵⁶ *Special Report, Invest. Comm., Illinois General Assembly, 1836-37*, p. 40.

⁵⁷ *Ibid.*

to be loaned, but were redeemable only at the place named on the face of the note. In this way, the whole of the note issue was kept in circulation without many demands being made upon the specie reserve.⁵⁸

On December 7, 1835, the governor convened the legislature in special session to consider, among other things, the advisability of increasing the capital stock of the state bank. It will be recalled that one hundred thousand dollars of the original issue was reserved for the state but that the amount owned by private individuals could be increased by one million dollars. The charter did not specify whether the state or the bank could control this additional issue of stock, hence Governor Duncan urged the legislature to exercise the privilege of issuing and selling these shares before the bank had a chance to act. At the time the governor's call was issued, state bank shares were quoted at 113 and the prospect of an addition of one hundred and thirty thousand dollars in premiums to the state's revenues appealed to the governor as a wise stroke of policy. By the time the legislature assembled, however, the stock had fallen in price, but Governor Duncan predicted that it would soon rise to 120 or even 130. He therefore urged the immediate passage of an act designating the state as an agent to sell one million dollars worth of state bank stock at not less than one hundred ten dollars per share, the premium to go to the state treasury.⁵⁹

The bank's friends in the legislature were too numerous and influential to submit to such a plan, and secured in its stead the passage of the act of January 16, 1836, to which reference has already been made. In addition to the section providing for three additional branches, the act specifically reserved to the directors of the bank the right to sell additional issues of stock. Furthermore, it was definitely stated that the profits accruing from the

⁵⁸*Chicago American*, March 12, 1836; Ford, *History of Illinois*, 179; *Special Report, Invest. Comm.*, *Illinois General Assembly*, 1836-37, p. 36.

⁵⁹Governor's message, *Senate Journal*, 1835-36, p. 9.

sale of shares should belong to the bank.⁶⁰ Section 25 of the charter had provided that the bank should be granted ten days in which to redeem its notes. The time was now extended to sixty days.⁶¹ As a compensation to the state for the privileges above granted, the bank was required to relieve the state of the payment of the principal and interest of the loan of one hundred thousand dollars secured from Samuel Wiggins in 1831.⁶² The bank accepted this condition June 9, 1836, and paid the interest on the loan until 1841, when it was relieved of further responsibility in the matter by surrendering one hundred thousand dollars in state bonds.⁶³ Meanwhile the directors issued for sale at public auction the additional one million dollars worth of stock and made an arrangement with Mr. Wiggins whereby a syndicate organized by him was to purchase at 110 all the shares left unsold. When the auction was over it was found that only 1335 of the shares had been sold, so Mr. Wiggins and his partners were compelled to take the remaining 8665.⁶⁴

The legislature at the special session to which reference has just been made provided that the bills of the state bank and branches should be receivable for state and county taxes and in payment of the principal and interest of the debts due the college, school and seminary funds. A proviso was made, however, that the state bank was not to construe the act as preventing the state from conferring a like favor upon the bills of the other Illinois banks. In spite of the auspicious beginning made by the state bank, the legislature had learned that it was best to be forearmed when dealing with paper money. Accordingly the proviso was inserted in the bill that if the governor, auditor and treasurer should decide that the state was likely to suffer any loss by accepting state bank notes, they should at once cause a notice to be inserted in every

⁶⁰*Laws of Illinois, 1835-36*, p. 237, Section 1.

⁶¹*Ibid.*, Section 3.

⁶²*Ibid.*, 238, Section 4.

⁶³*Reports of Session (H. R.)*, 1851, p. 485.

⁶⁴*Reports of Session (Senate)*, 1840-41, p. 336.

newspaper of the state to the effect that these notes were no longer receivable in payment of public dues.⁶⁵

It will be recalled that one of the influences which aided in securing the passage of the bank bill was the prospect of securing a share of the federal deposits. The very day⁶⁶ on which the charter of the bank was approved, Mr. Mather took the matter up with the Washington government through Senator Kane.⁶⁷ A few weeks later Theophilus W. Smith, who had not yet crossed swords with his opponents for the control of the bank, urged Secretary of the Treasury Woodbury to take favorable action at once in order to facilitate the sale of the stock.⁶⁸ To these letters as well as similar communications from other Illinois bank promoters, Secretary Woodbury made the same reply, that he did not feel justified in making a depositary of a bank which as yet existed only on paper.⁶⁹ As soon as the bank was ready for business, a formal application was made but Mr. Woodbury pleaded as an excuse for delay a lack of definite information as to the ownership and financial standing of the bank. A list of the stock holders was promptly forwarded to him, together with statements as to the bank's standing at various intervals. Mr. Woodbury next sought to discourage the directors by indicating to them the little need there was for a disbursing agency in a thinly populated community. He warned them that the large revenues collected in the state from the sale of public lands would have to be transferred at once to other parts of the country, leaving but a very small permanent balance with the state depositary.⁷⁰ President Mather, however, promptly expressed

⁶⁵*Laws of Illinois, 1835-36*, p. 244.

⁶⁶February 12, 1835.

⁶⁷Page 599 of the proceedings of the special committee appointed by the national house of representatives to investigate the relations which existed between R. M. Whitney, special examiner of depositary banks, and R. M. Whitney and Company, Washington, representatives of a number of depositaries.

⁶⁸U. S., H. of R., *Special Comm. Report*, 597.

⁶⁹*Ibid.*

⁷⁰*Ibid.*, 604.

the willingness of the directors to be content with whatever funds the government saw fit to allot to them.⁷¹ In the meantime Judge Smith, defeated in his attempt to control the bank, carried the fight to Washington. With his letter to Mr. Woodbury, attacking the men in control of the bank, he inclosed a copy of the proceedings of the commission which allotted the shares of stock. Having but a few months before besought Mr. Woodbury to make the bank a depository, Mr. Smith now felt it his special duty to apprise the treasury department of the great danger of entrusting the present regime of unscrupulous politicians with government funds.⁷²

It is well to note here that the bank was under the control of Whigs and that Mr. Smith and other political opponents used this fact against it with the Jackson administration. In like manner, William Kinney in a letter to Mr. Woodbury characterized the state bank as an "institution... chartered by the influence of a designing man for the sole purpose of speculation both in pecuniary and political matters." He predicted that if this Whig institution were entrusted with federal deposits it would be so ungrateful as to turn against the Van Buren cause and "throw sand in the eyes of the present administration and its true advocates."⁷³ A similar communication was received by Mr. Woodbury from Samuel McRoberts, a receiver of public money. He warned the administration "that the president and nearly all of the directors of the principal bank, all the cashiers of the branches, and an immense majority of the branch directors have been most decided opposition men to General Jackson, to his measures, to his friends and supporters." He hoped that so long as the bank continued in the hands of the "federal party" it might not receive the patronage of the government.⁷⁴ One cannot get the least inkling from Mr. Woodbury's replies to these men or from any of his utterances

⁷¹U. S., H. of R., *Special Comm. Report*, 604.

⁷²*Ibid.*, 605 ff.

⁷³*Ibid.*

⁷⁴U. S., H. of R., *Special Comm. Report*, 612.

in connection with the whole affair that he was swayed by political considerations but without giving a formal decision against the state bank, he early developed an unfavorable attitude toward its case.⁷⁵

As the heavy drain upon the bank's specie continued with the increased land entries, the directors decided to adopt more summary measures in order to secure the government deposits. Accordingly they sent one of their number, Mr. John Tillson, to Washington to wait upon the treasury officials. When he reached New York, en route, Mr. Tillson sought to pave the way by writing to Reuben M. Whitney, special examiner of depositaries, asking him to use his influence with his chief, Mr. Woodbury. He promised that if all went well, Mr. Whitney's firm would be employed as the Washington representatives of the Illinois state bank at whatever salary it was customary for a western bank to pay for such a service.⁷⁶ In reply, Mr. Whitney stated very frankly that the department was unfavorably disposed toward the bank and announced his intention of doing all in his power to prevent the selection of such an institution as a federal depositary even if such action involved the loss of a substantial fee. Unlike his superior officer, Mr. Whitney did not hesitate to bring political considerations into the matter by declaring that an institution which had openly worked for the election of its friends to represent the Springfield district in the legislature was unfit to handle government funds. Notwithstanding this rebuff, Mr. Tillson proceeded to Washington and presented his case to the treasury officials.⁷⁷

In a letter of December 8, 1835, addressed to President Mather, Mr. Woodbury furnished the officers of the bank a definite list of charges that had been made against it.⁷⁸ The first of these was that the stock had been allotted illegally. The second, that the bank was merely posing

⁷⁵U. S., H. of R., *Special Comm. Report*, 612, 613.

⁷⁶*Ibid.*, 102.

⁷⁷*Ibid.*, 102.

⁷⁸*Ibid.*, 613.

as a state bank in order to exist in contravention of the state constitution. The third, that the notes issued at one branch were put into circulation at some other distant branch which refused to redeem them.⁷⁹ To these charges, Mr. Woodbury added the personal objection that the branches at Galena and Chicago, the only places where the bank could be of much service to the government, had not been placed in operation. He inclosed a blank bond and application sheet, however, and asked that they be returned, filled out, together with the bank's answers to the charges. Mr. Mather's reply⁸⁰ to the charges is a crude attempt at evasion and subterfuge. He stated that "the distribution of the stock was in conformity with the provisions of the charter—the whole of it being assigned to citizens of the state in the manner defined by the charter." He admitted that the state did not own a dollar's worth of stock in the bank but considered that it still had "an interest" in the bank so long as the bank was required to pay an annual tax into the state treasury. He failed to see how any person could consider a charter unconstitutional which had received the unanimous approval of the supreme judges sitting as members of the council of revision. The reply of Mr. Mather to the charge that the branches were refusing to redeem one another's notes is somewhat vague. He admitted that separate sets of notes were ordered for each branch and that these had just been received from the printer, but he did not promise that the notes of one branch would be redeemed by another. He explained further that until they had received their separate issues the branches had been issuing the notes of the parent bank. As to whether the branches ever refused to redeem this temporary issue, Mr. Mather replied vaguely: "Of course, the bank could not have refused to redeem its notes, as stated. I will add, that all the present paper issued at Alton has been promptly re-

⁷⁹The Alton branch is mentioned in particular. Mr. Woodbury obtained this information from T. W. Smith's letter of November first. *Ibid.*, 614.

⁸⁰*Ibid.*, 615.

deemed there whenever presented." In closing, Mr. Mather assured Mr. Woodbury that the Galena and Chicago branches were now in a position to take care of government deposits. A few weeks later, Mr. Woodbury submitted the question of the constitutionality of the bank to Attorney General Butler and was given the opinion that it was not a state institution and therefore its whole existence was in defiance of the Illinois constitution.⁸¹

The directors of the bank, realizing the futility of further effort, formally requested Mr. Woodbury to "suspend" the application of the bank until he received further notice.⁸² The statement of Mr. Whitney in his letter to Mr. Tillson that the bank was meddling in Illinois politics aroused the anger of the Illinois Whigs. As a result the state senate in January, 1836, appointed a committee of five to take evidence, first, as to whether the control of the public money had not been put to an improper use by the Jackson administration in trying to force local banks to support Van Buren; second, as to whether Mr. Whitney, who was "now stationed near the treasury," was not holding an improper correspondence with the state bank officials.⁸³ The committee examined the correspondence of the bank and summoned Colonel Mather, Judge Smith, Samuel Wiggins and others to testify, but aside from making "political capital" nothing came of the investigation.⁸⁴ In August, 1836, the Shawneetown bank was made a special depositary for the public money collected at the Shawneetown land office⁸⁵ and for a time had the use of considerable sums of money, but as the government land sales diminished this amount on deposit decreased until after 1836 a nominal deposit of only forty

⁸¹*Sangamo Journal*, May 13, 1842. In connection with the question of constitutionality, it is interesting to note that Judge Smith, who drew up the charter and fought for its passage, was in hearty accord with the attorney general's opinion. Ford, *History of Illinois*, 179.

⁸²U. S. H. of R., *Special Comm. Report*, 619.

⁸³*Senate Journal*, 1835-36, p. 259.

⁸⁴*Missouri Republican*, January 19, 1836.

⁸⁵*Sangamo Journal*, August 27, 1836.

dollars was kept in the bank, probably as a sort of "retaining fee."⁸⁶

By midsummer, 1836, the country-wide wave of speculation in land and town lots had reached Illinois. Under its influence Chicago grew like magic from a mere settlement to a city of several thousand inhabitants and became the center of the real estate business of the adjoining states and territories. It was in Chicago that town site speculators exhibited their plats and auctioned off their lots. Her fame spread rapidly through the East and started a stream of immigration by way of the Erie Canal and the Great Lakes. The mania for speculation spread throughout Illinois with the result that the interests of legitimate business were everywhere sacrificed to the desire for suddenly acquired riches.⁸⁷ The demand for loans at the state bank far exceeded its accommodations on account of a lack of specie. Since the issuance of the specie circular, the heavy drain on the bank's cash reserves by land purchasers now came directly from the purchasers themselves, whereas before they paid with notes of the bank which were later returned by the depository bank for redemption.⁸⁸ As a consequence of this condition, the bank suspended its discount business until it received a shipment of \$280,000 in gold and silver from New York and New Orleans.⁸⁹

The people of Illinois, as well as the citizens of the older states, were beginning to be carried away with the idea that improved means of communication must be provided regardless of the cost. In Illinois this idea was

⁸⁶Various reports of the bank show the following amounts on deposit by the United States treasurer:

January, 1837	\$81,414.60
January, 1838	28,142.47
November, 1838	40.00
November, 1839	40.00
November, 1840	40.00

and so on until the bank went into liquidation.

⁸⁷*Reports of Session* (Senate), 1839-40, p. 5; Ford, *History of Illinois*, 181.

⁸⁸*Sangamo Journal*, August 13, 1836.

⁸⁹*Illinois Register* (Vandalia), November 4, 1836.

given expression through the press and in mass meetings in the principal towns. When the general assembly convened in December, 1836, an internal improvement convention also assembled at the capital for the purpose of influencing the members of the legislature to provide for an elaborate system of railroads and waterways.⁹⁰ The legislature responded most liberally. Instead of merely providing for the completion of the canal between the Illinois River and the Great Lakes, a task which alone would have been a strain upon a pioneer community, they authorized the immediate construction by the state of seven railway lines and the dredging of all the important rivers. As an anti-climax to the whole performance, the sum of two hundred thousand dollars was voted as a gift to those counties which had not been given a line of railroad.⁹¹ In order to carry out this program the legislature authorized a loan of eight millions, an amount eight times as great as the total expenses of the state government from its inception to the year 1836. The next problem, however, was not so easily solved: How was the enormous annual interest bill to be met? The people were already as heavily burdened with taxes as their meager resources would permit and no legislator would have the courage to face his angry constituents after proposing or voting for such a measure. At length it occurred to the framers of the bill that the banks could be made a part of the internal improvement system. As one of the leading journals of the state put it: "In connection with our internal improvement system it is impossible not to associate the banks of this state—the interests of both are alike and rest alike upon enlightened public opinion. One is the hand-maid of the other, and since the internal improvement system is based upon credit it cannot be carried on without the aid of banks."⁹²

⁹⁰C. M. Thompson, *Governors' Letter Books*, ii, Introduction, li; see also Douglas, *Autobiography*, in *Illinois State Historical Society Journal*, October, 1912.

⁹¹*Laws of Illinois*, 1836-37, pp. 121, 131-133, 134-136.

⁹²*Sangamo Journal*, January 27, 1837.

During the eighteen months of its existence the state bank had declared dividends aggregating seven dollars and seventy-five cents a share,⁹³ an amount equal to nine per cent on the paid up capital, and the Bank of Illinois had done quite as well.⁹⁴ It seemed plausible to the members of the legislature, therefore, that if the state became the owner of a large amount of profitable bank stock, the financial obligations of the internal improvement system could be met with ease. Accordingly there was inserted in the internal improvement act the following provision: "All profits arising from bank and other stocks hereafter to be subscribed for and owned by this state, after liquidating the interest on loans contracted for the purchase of such bank or other stock," should be devoted to the payment of the interest on the eight millions to be borrowed for internal improvements.⁹⁵ Governor Duncan in his message to the legislature⁹⁶ had recommended that the state subscribe only for the one hundred thousand dollars' worth of stock reserved for it in the charter of the state bank, but the legislature was not disposed to stop at this modest sum. By the acts of March 2 and 4, 1837, not only was the one hundred thousand dollars' worth of stock subscribed for, but the capital of \$2,500,000 was increased to \$4,500,000,⁹⁷ and the state took the whole additional issue of \$2,000,000.⁹⁸ At the same time the capital stock of the Bank of Illinois was increased from \$300,000 to \$1,700,000, of which one million dollars' worth was to be subscribed for by the state.⁹⁹

In order to provide the necessary funds for the purchase of this stock, the board of fund commissioners, a

⁹³*Report of state bank investigating committee, 1836-37*, p. 36.

⁹⁴*Senate Journal, 1836-37*, pp. 352 ff.

⁹⁵*Laws of Illinois, 1836-37*, p. 137.

⁹⁶*Senate Journal, 1836-37*, p. 22.

⁹⁷Only a small part of the million dollar additional issue of shares of capital stock to individuals was ever paid in, so the total capital liability was never much in excess of \$3,500,000. *Reports of Session (Senate), 1839-40*, p. 301.

⁹⁸*Laws of Illinois, 1836-37*, p. 18.

⁹⁹*Ibid.*, Section 6.

body created to direct the financing of the internal improvements, was authorized to float a loan of not more than three million dollars. There were to be issued to the lenders shares of "Illinois Bank and Internal Improvement Stock," bearing interest at not more than six per cent, and redeemable by the state at any time after 1860.¹⁰⁰ In no case, however, could these bonds be sold for less than par. The fund commissioners were to dispose of enough bonds to enable them with the aid of available cash in the treasury to make a payment to the two banks equal to those already made by private stockholders on their shares. To the nine directors of the state bank were added five state directors elected biennially by a vote of the two houses of the general assembly.¹⁰¹ This arrangement was hardly a fair one, however, for it gave to the state, the owner of a majority of the shares, a minority of the directorate. In like manner, state directors were added to the board of the Shawneetown bank and its activities were enlarged by providing for branches at Jacksonville, Lawrenceville and Alton, and authorizing the establishment of two others.¹⁰² The bank law as well as the internal improvement act provided that the net profits arising from the stock must be applied to the interest upon internal improvement bonds. The banks were made the depositaries of the funds accumulating from the sale of bonds and were required to pay to the state a rate of interest agreed upon by both parties. Moreover, the act designated the banks as the fiscal agents of the state as long as quarterly statements of their condition indicated that they were solvent.¹⁰³

The original charter of the state bank permitted the directors to borrow any sum not exceeding a million dollars for the purpose of making loans on real estate. The legis-

¹⁰⁰*Laws of Illinois, 1836-37*, p. 18, Section 3.

¹⁰¹*Ibid.*, Section 8.

¹⁰²The bank of Illinois later established one of these at Pekin. *Laws of Illinois, 1849*, p. 39.

¹⁰³*Ibid.*, 1836-37, p. 18, Sections 10, 12.

lature now extended this privilege to the Bank of Illinois, but set a maximum limit of \$250,000.¹⁰⁴

The legislature still contained a considerable element hostile to banks and they succeeded in carrying a resolution providing for the investigation of the state bank's affairs by a joint committee of five.¹⁰⁵ The object stated in the resolution was to ascertain whether the bank had violated any of the provisions of its charter and was on that account not a fit place to keep the state's funds. In spite of the able opposition of Abraham Lincoln,¹⁰⁶ who contended that such an investigation was an unwarranted intrusion into the affairs of what was still a private institution, the resolution was adopted. The report of the committee declared that the bank's management was free from all questionable practices and declared that it was not only a safe place to keep funds, but that its shares would prove a good investment for the state.

A similar investigation of the Bank of Illinois throws light upon the general policy of conducting that institution since its revival in 1835.¹⁰⁷ The Bank of Illinois had not yet become a state institution and hence could have prevented any intrusion into its private affairs, but President Marshall was anxious to make a good impression and placed all the bank's records at the disposal of the committee, not to mention a bountiful supply of whisky and "plenty of sugar to sweeten it."¹⁰⁸ The bank was found to be owned and managed by practically the same men who had it in charge during its brief existence some years before. All the directors were men of good standing in southeastern Illinois, most of them having lived in the neighborhood of

¹⁰⁴*Laws of Illinois, 1836-37*, p. 17.

¹⁰⁵*Senate Journal, 1836-37*, p. 244.

¹⁰⁶*Sangamo Journal, January 28, 1837*. Mr. Lincoln was a member of the lower house, having been elected as a Whig from the Springfield district. He was a staunch friend of the state bank.

¹⁰⁷*Senate Journal, 1836-37*, p. 352. For complete report of the investigation see, also, U. S., *Letter of Secy. of Treas. on State Banks, 1838*, pp. 778-783.

¹⁰⁸Ford, *History of Illinois*, 197.

Shawneetown for over twenty years.¹⁰⁹ They had been impartial in making loans and discounts, restricting the latter to business men.¹¹⁰ As for loans, the entire business of the bank was confined to property loans in southeastern Illinois. The principal item of income arose from the purchase and sale of bills of exchange. The southern Illinois farmer usually shipped his grain and live stock down the river to New Orleans and drew a bill of exchange on the commission man in that city. These bills were sold to the bank and being payable at short dates were used to replenish its stock of specie. The committee found a reserve of specie on hand to the amount of \$47,278, and a few days later a shipment of \$23,300 arrived, making a total of \$70,578 as against an outstanding circulation of \$105,563 and deposits to the amount of \$110,000.

The committee found that the practice, forbidden by the legislature at this session,¹¹¹ had been indulged in of issuing bank notes payable at some point outside the state. Of the \$105,563 in bank notes then outstanding, \$83,178 had been issued at home, \$14,900 at Philadelphia, \$2,825 at Louisville, and \$4,660 at New Orleans. The bank had just redeemed \$8,500 of the Philadelphia issue, which left but \$13,885 to come under the ban of the new law. The directors gave as their reason for this foreign issue the desire to create at these places ample funds with which to meet the needs of Illinois merchants without seriously disturbing the bank's credits created by the shipment of grain and provisions. On the whole, the two committees seem to have had grounds for their laudatory comments on the management of the two banks.

With the entry of the state into the field of banking the situation was completely changed. Illinois had received from the federal government \$477,919.14 as her share of the surplus revenue distributed among the states in 1836.¹¹²

¹⁰⁹*Senate Journal, 1836-37*, p. 356.

¹¹⁰*Ibid.*, 355.

¹¹¹*Laws of Illinois, 1836-37*, p. 18.

¹¹²*Auditor's Report, Laws of Illinois, 1836-37*, p. 193.

The legislature devoted \$335,592.32 of this sum to the repayment of the amounts taken from the school fund by their predecessors and spent the rest in internal improvements. Since, however, funds were needed to pay for a portion of the state's bank stock in cash, the federal money just returned to the school fund was reborrowed and divided between the two banks.¹¹³ As soon as the new "Banking and Internal Improvement" bonds were ready, the commissioners proceeded to New York to offer them for sale, in order that the balance due the banks for the state's shares of stock might be met. On the day set for opening the bids for the bonds, the commissioners were chagrined to find that not a single offer had been made. The act forbade them to sell the bonds at less than par, so they were compelled to abandon their efforts. The banks were now so involved in the state's affairs that they agreed to accept the bonds at their face value in payment of the remainder of the state's stock; the state bank took \$1,765,000 worth and the Shawneetown bank, \$900,000. The latter bank afterwards succeeded in disposing of its share but those taken over by the state bank continued to burden its resources and embarrass its operations during the rest of its existence.¹¹⁴ The banks had scarcely begun to adjust themselves to their new relationship with the state when the panic of 1837 burst upon the country and left ruin everywhere.

Beginning in New York City, the first week in May, the suspension of specie payments by the banks spread like a contagion down the Middle Atlantic Coast and then to the West and South.¹¹⁵ By the twenty-second of May it had reached the St. Louis depositary bank and a week later the Illinois banks voted to suspend for an indefinite period.¹¹⁶ In so doing the directors of the state bank undoubtedly realized that the legislature would not demand the winding up of the bank's affairs as a penalty for violat-

¹¹³*Senate Journal*, 1842-43, p. 36.

¹¹⁴Ford, *History of Illinois*, 190.

¹¹⁵*Sangamo Journal*, May 27, 1837.

¹¹⁶*Ibid.*, June 3, 1837; *Senate Journal* (special session), 1837, p. 12.

ing its charter by suspending specie payment, while the charter of the Shawneetown bank did not contain such a forfeiture clause at all. The banks and the state were now so closely associated that the sudden termination of the activities of either of them would result in indescribable chaos in the state's finances. Thoroughly alarmed at the possibility of such a contingency in the case of the state bank, two of the canal commissioners hastened to Jacksonville in search of the governor. They finally persuaded him to call a special session of the legislature in order that legal sanction might be given to the violation of the bank's charter. Accordingly at the opening of the special session in July, 1837, a memorial was presented from the state bank asking that the penalty of forfeiture be suspended. The legislature acceded to the request and authorized the suspension of specie payments until the end of the next general assembly. Certain stipulations were imposed, however, the chief of which were: (1) No dividend could be declared until the bank resumed specie payment; (2) No specie could be disposed of in any way, except in amounts of five dollars or less, for change; (3) A monthly statement of the bank's condition must be furnished the governor and the newspaper owned by the state printer; (4) The total issue of notes during suspension must not exceed the amount of capital actually paid in; (5) The state's funds must be collected and disbursed as usual; (6) Relief must be granted to the bank's debtors by allowing them to pay their notes in instalments; (7) If any of the foregoing provisions was violated, the bank's charter was *ipso facto* liable to forfeiture.¹¹⁷

A brief act was also passed at the special session authorizing the state to sell its stock in the banks to private individuals if funds were needed to meet the interest on internal improvement loans.¹¹⁸ Notwithstanding that the crisis now made their extravagant railroad and waterway program impossible of fulfilment, the legislature refused

¹¹⁷*Laws of Illinois* (special session), 1837, p. 6.

¹¹⁸*Ibid.*, 5.

to curtail the plans in any way. By the fall of 1837, hard times set in, but the banks were powerless to furnish aid to tide over the situation. Instead, the discounting of notes was reduced to a minimum and suits were instituted against delinquent borrowers, most of whom were business men. They in turn had done a very heavy credit business since 1835 and were compelled to force the farmers and artisans to settle with them.¹¹⁹ This caused a feeling of resentment against the banks among the rank and file of the people.

The Whig party and its newspaper organs remained loyal to the banks, but the Democratic journals either denounced all banks on general principles or favored their establishment on an absolutely specie-paying basis.¹²⁰ Even Governor Ewing, who had been instrumental in the establishment of the state bank, now turned against banks in general and his former pet project in particular.¹²¹

As conditions throughout the country began to improve the Illinois banks, after a suspension of over thirteen months, resumed specie payment, August 13, 1838.¹²² In Governor Duncan's farewell message to the legislature in December, 1838, he again urged in vain the repeal of the whole internal improvement system. As for the banks, he commended them for their voluntary resumption and for their general stability displayed during the crisis. To encourage the relief of the multitude of poverty stricken land holders he suggested that the state furnish, without any responsibility therefor, to any person lending money on Illinois land for five years at six per cent, circulating notes to the full amount of the principal, to be secured by the mortgage on the property, the lender to be allowed to circulate these notes freely provided he redeemed them promptly in specie.¹²³ Instead of giving serious consideration to the

¹¹⁹*Memoirs of Gustave Koerner*, 429.

¹²⁰*Sangamo Journal*, August 19, 1837.

¹²¹*Ibid.*, July 29, 1837.

¹²²*Ibid.*, August 18, 1838.

¹²³*House Journal*, 1838-39, p. 14.

governor's proposal, the legislature made more secure the monopoly of note issue enjoyed by the banks, by passing the act of December 4, which prohibited persons and private institutions from issuing notes.¹²⁴

Governor Carlin was a bank hater, and in his inaugural address took the reverse of his predecessor's position.¹²⁵ He denounced the state bank in particular and pointed out four dangerous defects in the existing system: (1) There was no adequate machinery for compelling the banks to comply with their charters; (2) They were allowed to meddle in politics with impunity; (3) The state bank was lending millions to a few speculators; (4) The legislature did not use the means it had of compelling the banks to live up to the letter of the law. While he deplored the fact that such an elaborate system of improvements had been inaugurated, Mr. Carlin was of the opinion that it was too late to turn back after an expenditure of ten millions had been made. The legislature heeded his advice by authorizing nearly a million dollars' worth of additional projects rather than surrender the principle of state construction of public improvements.¹²⁶ In addition to the act forbidding the issue of notes by unauthorized persons, several other minor bank laws were passed at this session. The first of these was known as the foreign small note act and had for its object the expulsion from the state of all notes of less than five dollars denomination. The state bank had been forbidden by its charter to issue notes smaller than five dollars and the Bank of Illinois had consistently followed the policy of not doing so,¹²⁷ hence the public had been compelled to depend for its small notes upon the issues of the Bank of Cairo and a miscellaneous assortment of foreign notes. By excluding foreign small notes a monopoly of the issue of ones, twos and threes was given to the Bank of Cairo, but, as will be seen, this privilege was later

¹²⁴*Laws of Illinois, 1838-39*, p. 80.

¹²⁵*Senate Journal, 1838-39*, p. 18.

¹²⁶*Reports of Session (Senate), 1839-40*, p. 5.

¹²⁷*Senate Journal, 1836-37*, pp. 354 ff.

exercised also by the Bank of Illinois and the legislature finally extended it to the state bank.¹²⁸ A third act relating to banks was passed at the 1838-39 session. It placed the selection of the state directors of the two banks in the hands of the governor, instead of the legislature.¹²⁹

The federal government still refused to establish a depository in the state, hence the depository at St. Louis continued to receive the large amount of land money collected from Illinois purchasers. The legislature by joint resolution again besought the secretary of the treasury to make the state bank a federal depository but he had no funds to place in the hands of the Whigs. The official reason given was that the banks of Illinois did not conform to the federal requirements by refraining from paying small bills to their patrons.¹³⁰ The secretary, however, found it convenient to use the Chicago branch of the state bank and in 1839-40 had nearly \$150,000 on deposit there.¹³¹ The failure to secure the federal deposits was a hard blow to the state bank and its excessive issue of notes soon began to depreciate.

Meanwhile the temporary revival of business in 1838 and the early part of 1839 was followed by a second crisis in the autumn of 1839. When the news reached Springfield, October 20, that the banks of the East and South had again suspended specie payment, the directors of the state bank were called together and again decided to order another suspension in spite of losing their charter by so doing. Messengers were despatched to every branch notifying them to suspend at once.¹³² The news spread quickly and the next morning a large amount of notes was presented at the bank for redemption; but the directors refused to pay out

¹²⁸*Laws of Illinois, 1838-39*, p. 79. The note issues of the Bank of Cairo will be taken up hereafter in connection with the history of that institution.

¹²⁹*Ibid.*, 234.

¹³⁰*Sangamo Journal*, January 19, 1839.

¹³¹*Reports of Session (Senate)*, 1839-40, p. 310.

¹³²*Niles' Register*, lvii, 167.

any specie.¹³³ The directors of the Bank of Illinois at first decided that they were able to weather the storm,¹³⁴ but after making the attempt for two weeks they followed the example of the state bank.¹³⁵

The alarming condition of the state's finances caused the governor to convene the legislature in the special session of 1839-40. The credit of the state had been extended to the limit, the total liabilities aggregating \$11,107,919.44 and calling for an annual interest payment of \$637,800.¹³⁶ Furthermore, to provide funds to complete the work already authorized would increase the amount to \$21,846,444.50. Not only had the legislature ordered the work over the whole system of improvements to be undertaken simultaneously but they had, as has been noted, enlarged the scope of the work. The governor now urged that only one or two of the most important projects be continued. He then proceeded to criticize the state bank; first for having suspended specie payment again; second, for utterly disregarding the interests of the state and the general public by furthering the interests of a few speculators in lead and pork. He therefore recommended that no mercy be shown the bank and that its recent operations be subjected to a most searching investigation. The attitude of the governor and the legislature seems to have been more friendly toward the Bank of Illinois.¹³⁷ Consequently they were content to let that institution off with a demand addressed to its state directors for an explanation as to their votes in favor of suspension. The defense offered by the directors was that the interests of the state demanded that the bank's specie be thus protected during country-wide suspensions of specie payment. Furthermore, they argued that the constant advances to the state had weakened the bank's ability to withstand a drain of its gold and silver. The part of the reply that was calculated

¹³³*St. Louis Bulletin*, October 24, 1839.

¹³⁴*Shawneetown Voice and Journal*, October 26, 1839.

¹³⁵*Reports of Session (Senate)*, 1839-40, p. 46.

¹³⁶*Ibid.*, 3.

¹³⁷*Ibid.*, 12.

to appeal to the legislature was the statement that if the bank must continue to pay out specie, it must curtail its discounts and loans to such an extent that no dividend could be paid on the state's million dollars worth of stock.¹³⁸

With regard to the state bank, the legislature decided to follow Governor Carlin's advice and give its affairs a thorough airing before a committee of the two houses. Although the majority of the committee appointed favored the bank wherever possible, they were forced to acknowledge in their report that startling abuses had crept into its management. All the members agreed that the bank had violated its charter by a suspension lasting more than sixty days, but on other more important matters the discord was so great that three separate reports were submitted to the legislature.¹³⁹ A number of persistent rumors about the bank were investigated by the committee and more or less truth was found in them. In the first place, the statement that money was loaned to non-residents was found to be correct but the amount had been greatly exaggerated, only four per cent of the loans having been made to persons outside of the state. There was a current rumor that Nevins, Townsend, and Company, the bank's eastern correspondents, were given the use of large sums without interest, but on the contrary the bank was found to have overdrawn its account with this house to the extent of \$150,000. Considerable suspicion having been attached to the stockholdings of Samuel Wiggins of Cincinnati, the committee made a careful inquiry as to the character of his relations with the bank. They found that of the original issue of \$1,400,000, Mr. Wiggins obtained \$193,100. He had paid some of the installments when called for, but in October, 1835, he had failed to respond to the call and was compelled to ask that the penalty of forfeiture of his stock be not inflicted for sixty days. Contrary to the bank's charter, he was granted a loan of a sufficient amount

¹³⁸*Reports of Session (Senate) 1839-40* 1 128.

¹³⁹*Ibid.*, 241 ff.

to meet the call, by offering \$50,000 worth of his stock as collateral.¹⁴⁰ The bank not only renewed this loan from time to time, but in addition advanced enough money to enable Mr. Wiggins to complete the payments on his \$193,100 worth of stock. In over four years, he had repaid but \$18,500 of the \$58,500 borrowed but had continued to draw a semi-annual dividend on all the stock.

In addition to his personal holding, it will be remembered that Mr. Wiggins was a member of a syndicate which agreed to purchase all the second issue of a million dollars left unsold. They had paid eleven dollars on each of the 8,665 shares and were receiving a proportional share of the dividends and Mr. Wiggins had a correspondingly larger voice in the direction of the bank's management although ineligible to a place in the directorate. Aside from the accommodations granted to Mr. Wiggins, the bank had confined its activities very largely within the state. It had even refrained from accepting any considerable share of the St. Louis patronage which would have been exceedingly profitable on account of the large volume of produce which was transhipped at that point. But this failure to accommodate the business men of St. Louis was due to no exalted ideas of devotion to home interests but was the result of the selfish ambition of a small clique of Alton speculators to destroy the commercial supremacy of St. Louis and to amass great fortunes for themselves by diverting the commerce of the Mississippi to Alton. As has been noted, Godfrey, Gilman and Company, Alton commission merchants, had a large portion of the state bank stock under their control and unlike the other influential stockholders, were residents of the state and eligible to election as directors. Accordingly, Mr. Gilman had been a director of the parent bank for over three years and Mr. Godfrey had held a directorship in the Alton branch for almost as long a time. But for reasons which are about to be revealed, both had recently resigned their respective offices.¹⁴¹

¹⁴⁰*Reports of Session (Senate), 1839-40*, p. 274.

¹⁴¹*Ibid.*, 289.

Since the prosperity of their business depended upon the development of Alton at the expense of St. Louis, this firm proceeded to enlist the state bank in their campaign to make Alton the commercial emporium of the Mississippi Valley. Much of the corn and pork from the farms of the Middle West, as well as the lead from the mines at Galena on the upper Mississippi, were sold to St. Louis merchants and transhipped by them to southern or eastern markets, thus creating for the benefit of St. Louis brokers a large amount of credit in the money centers of the country.¹⁴² The region around Galena was exporting by way of St. Louis six or seven hundred thousand dollars worth of lead each year, the greater part of it to the Atlantic seaboard, and the directors of the state bank were allured by the prospect of becoming the possessors of the large amount of credit that would result from these shipments. Consequently, they were easily persuaded to make liberal advances to the Alton lead merchants, especially to their fellow directors, Messrs. Godfrey and Gilman. In fact, the accommodations to this one firm as drawers, discountors, and endorsers of paper amounted to \$800,748.00¹⁴³ before the other directors came to their senses and called a halt. The larger part of this liability had been created by the firm's transactions with H. H. Gear, a Galena lead producer, who, whenever he drew bills of exchange on them for shipments of lead, promptly sold them to the Galena branch of the state bank. The bank, however, was not wholly committed to the interests of one Alton concern for it had made similar advances of over one hundred thousand dollars to the firm of A. G. Sloo and Company.¹⁴⁴ With such generous financial backing the Alton commission men had combined for the purpose of raising the price of lead and succeeded in a short time in raising it from \$2.75 per hundred weight to \$4.25. In their efforts to corner the supply they bought with a free hand, but soon found that

¹⁴²*Reports of Session (Senate)*, 1839-40, p. 277.

¹⁴³*Ibid.*, 256.

¹⁴⁴*Ibid.*, 265; Ford, *History of Illinois*, 176.

they were unable to control the situation in the eastern market, which was supplied by scores of producers.¹⁴⁵ By the time their lead reached New York, the market had become so unsatisfactory that the whole large shipment was placed in the warehouses to await a rise in price. Meanwhile in addition to their speculations on the lead market itself, Godfrey, Gilman and Company had used several hundred thousand dollars of the bank's money in buying up mines and smelters and in speculating in Galena town lots.¹⁴⁶ The burden, therefore, finally became too great and they and their fellow speculators were compelled to bring their lead out of storage and sell it at a great sacrifice. Sloo and Company went into bankruptcy and the other firms were practically ruined. Mr. Gear of Galena was compelled by the directors to assume a large part of Godfrey, Gilman and Company's obligation, thus reducing that firm's liability to the bank to \$419,358.¹⁴⁷ The attempt to make Alton a great metropolis cost the bank nearly a million dollars and brought disaster to the city's legitimate business interests.¹⁴⁸

The connection of the bank with speculation in Illinois produce did not end here, for it came dangerously near to the point of speculating in lead and pork on its own account. In its eagerness to secure credit in the East the bank had united with some Galena mine owners in employing J. G. Lamb of Alton as their joint agent. According to the arrangement made with Mr. Lamb, these lead producers delivered their product to the Galena branch of the bank and were paid about three-fourths of its market value. The cashier then shipped the lead to Mr. Lamb, who in turn consigned it to Nevins, Townsend and Company, the bank's New York correspondents. When the lead was sold in the New York market, Nevins, Townsend and Company placed the proceeds to the credit of the state

¹⁴⁵ *Reports of Session* (Senate), 1839-40, p. 277.

¹⁴⁶ Ford, *History of Illinois*, 176.

¹⁴⁷ *Reports of Session* (Senate), 1839-40, p. 265.

¹⁴⁸ Ford, *History of Illinois*, 176.

bank. The bank in turn deducted the interest on the money paid to the lead producers and credited Mr. Lamb with the rest. Mr. Lamb then deducted his commission and other charges and sent the producer a check for the balance. Thus while the bank cannot be said to have speculated directly in lead it was guilty of devoting too large a share of its resources to the fostering of a highly hazardous undertaking.¹⁴⁹

The cashier and clerk of the Chicago branch also displayed a lack of good judgment, to say the least, by engaging in pork speculation with two Chicago commission men. They used over \$26,000 of the bank's funds in this way at a time when accommodations were being refused the legitimate enterprises of the city.¹⁵⁰

Closely related to the inquiry into the bank's relations with speculators was the charge that all the directors as well as members of the legislature had received a disproportionate amount of credit. In spite of the fact that Messrs. Godfrey and Gilman had now withdrawn from the directorate, it was found that \$493,227.57 was due the bank from its directors and the firms of which they were members. The president of the bank urged in defense of the practice of favoring the directors the consideration that these men gave a great deal of valuable time to the bank's business and were entitled to special consideration in lieu of a fixed salary.¹⁵¹ As for special favors being shown members of the legislature, the investigation showed that twenty-one members had borrowed over \$2,000 each, but that their total liabilities reached the modest sum of \$50,394.26.¹⁵² The extent to which the bank accommodated the different classes of borrowers, however, can be seen from the following table in which debtors are divided into groups according to the amount of their obligations.¹⁵³

¹⁴⁹*Reports of Session (Senate)*, 1839-40, pp. 311 ff., 336.

¹⁵⁰*Ibid.*, 266, 331, 332.

¹⁵¹*Ibid.*, pp. 279, 287.

¹⁵²*Ibid.*, 307.

¹⁵³*Ibid.*, 290.

Amount	Number of borrowers
\$200 or less.....	1875
\$200-500	1408
\$500-1000	713
\$1000-3000	732
\$3000-5000	172
Over \$5000	202

Although the majority report of the committee expressed confidence in the bank's solvency, in spite of its reckless advances to favorites, an analysis of the official statement of the institution for January, 1840, reveals some assets of a very questionable value.¹⁵⁴ For example, the first item under "assets" (discounts, bills of exchange and loans) amounts to \$3,937,584.75, but Dr. Murphy of Chicago, a member of the committee, in his separate report, shows that at least \$921,461.19 of this amount should have been listed as a suspended debt.¹⁵⁵ The second item in the "asset" column, "Illinois State Bonds," shows that the bank had not been able to dispose of the \$1,765,000 in state bonds received in part payment of the state's shares, nor the \$699,750 worth of canal stock unloaded by the state upon the directors of the bank.¹⁵⁶ In view of the actual market value of Illinois securities, the bonds should have been entered at about half their face value instead of at par. It was evident, therefore, that if the bank were compelled to forfeit its charter because of its recent suspension of specie payment, the stockholders, including the state, would not be able to realize the full amount invested in the enterprise.

The legislature, although dominated by Democrats, many of them hostile to banks, decided that the state's interests demanded a further postponement of the penalty of forfeiture. By the act of January 31, 1840, the bank was allowed to continue the suspension of specie payments until the close of the next session of the legislature. The directors, however, were required to bind themselves to an

¹⁵⁴*Reports of Session (Senate), 1839-40*, 348.

¹⁵⁵*Ibid.*, p. 263.

¹⁵⁶*Ibid.*, 308.

agreement: (1) To make no more loans based upon the bank's stock; (2) To permit any person holding five or more shares to become a director; (3) To limit the amount of liabilities of any one person to \$10,000 in promissory notes and \$25,000 in bills of exchange; (4) To choose not less than three new directors at the next election and not less than two new members at each succeeding election; (5) To accept their own currency for all claims against them. In addition to these stipulations, the restrictions placed upon the bank during its former suspension were again put into force.¹⁵⁷

The use of bank funds for pork speculation by officers of the Chicago branch furnished an opportunity for some of the legislators to "get even" with the cashier of the branch by securing its removal from Chicago to Lockport, a village about forty miles away, on the line of the Illinois and Michigan Canal.¹⁵⁸ During its existence of less than four years the Chicago branch had been a factor in the rapid development of that city. It had furnished eastern exchange at from one to two per cent while its discounts of business paper averaged about \$500,000. The directors of the parent bank, however, decided to obey the mandate of the legislature and in July, 1840, closed the branch.¹⁵⁹ Scarcely had a beginning been made in the new location, however, when the legislature restored the branch to Chicago.¹⁶⁰ On the whole, the most commendable piece of legislation enacted at the special session, although it dealt only indirectly with the banks, was the repeal of the internal improvement act and the issuance of an order that all work be indefinitely suspended.¹⁶¹

The year 1840 witnessed some improvement in the general situation in Illinois but the banks were gradually falling into bad repute. Their notes, which had never

¹⁵⁷*Laws of Illinois, 1839-40*, p. 15.

¹⁵⁸*Ibid.*

¹⁵⁹*Chicago American*, August 7, 1840.

¹⁶⁰*Laws of Illinois, 1840-41*, p. 40.

¹⁶¹*Ibid.*, 1839-40, p. 93.

suffered a discount of more than two or three per cent, were now rated by brokers at ninety cents on the dollar. Hence it was estimated by Congressman Stuart in a speech in the federal house of representatives that the bank paper of Illinois was costing the people of the state one hundred and sixty thousand dollars a year in higher prices for goods bought in the East and lower prices for produce sold there.¹⁶² A number of Chicago business men made an unsuccessful attempt to drive Illinois bank paper out of circulation in that city, while the notes were dubbed "bank rags" by the newspapers.¹⁶³

Meanwhile the interest bill of the state had assumed such alarming proportions that Governor Carlin was forced to summon the legislature to meet two weeks before the regular date (December 7, 1840) in order that some way might be devised for providing the needed revenue. There had been so much resentment manifested toward previous legislatures which had levied additional taxes that some of the members favored a bill providing for the purchase by the state of three millions of additional bank stock, with the expectation that the dividends on the \$6,100,000 thus invested would not only pay the interest on the money borrowed to buy the stock but would suffice for the payment of the state's entire interest bill. In support of the project it was urged that the unsatisfactory condition of the banks was due solely to a lack of capital and if this were supplied, dividends would probably increase at once to the desired amount.¹⁶⁴ Governor Carlin was bitterly opposed to this plan and warned the legislature against all such chimerical schemes.¹⁶⁵ The matter was referred to the committee on banks, which presented in its report the following vivid picture of the existing situation:¹⁶⁶

"Such schemes of producing wealth as the multiplication of banks and paper money all end in disaster. Up to

¹⁶²Quoted by the *Vandalia Free Press*, June 26, 1840.

¹⁶³*Chicago American*, October 9, 1840.

¹⁶⁴*Reports of Session* (H. of R.), 1840-41, p. 13.

¹⁶⁵*Reports of Session* (Senate), 1840-41, p. 3.

¹⁶⁶*Ibid.* (H. of R.), 14.

1836-37, when their capital was increased, our whole debt was only \$100,000. Three years have elapsed and what is their history? Paper money multiplied, foreign debts created, visionary schemes of internal improvement commenced and abandoned—prodigality abounding in every department, until we find ourselves burdened with a debt of thirteen millions. The payment of this stock at the present rate of our bonds would involve borrowing four millions to pay three. Since 1837 the dividends have been constantly diminishing until we find them for the last year only equal to the interest on our bonds.¹⁶⁷ . . . The banks have been in operation for four years and during a large portion of the time have been in a state of suspension. . . . They have been unable to handle three millions rightly, then why give them three more?"

The legislature was convinced of the wisdom of this view and partially met the situation by voting an increase of taxes. The immediate needs, however, had to be met in a very questionable manner. The fund commissioners being unable to sell the state's interest bonds, hypothecated \$804,000 with Macalister and Stebbins of Philadelphia as security for a loan of but \$321,600. The firm remitted \$261,500, but, according to Ford, the state never was paid the rest.¹⁶⁸

By summoning the legislature two weeks earlier than the time fixed by the constitution Governor Carlin caused a very important question to be raised. The Democrats held that since the regular session could not lawfully begin until December 7, the session called by the governor was

¹⁶⁷The following table shows the fluctuation in the semi-annual dividend rate in the case of both banks. *Reports of Session* (Senate), 1840-41, p. 15.

	State Bank	Bank of Illinois
June, 1837	2½%	not given
December, 1837	5	not given
June, 1838	5	not given
December, 1838	4	3½%
June, 1839	4	4
December, 1839	3½	4
June, 1840	3	3

¹⁶⁸Ford, *History of Illinois*, 198.

entirely distinct from the regular session and must be adjourned sine die on the preceding legislative day, December 5. It will be remembered that the state bank was required by the recent suspension act to resume at the close of the next session of the legislature, but the directors naturally supposed that there were several months in which to prepare for resumption and had not given the matter serious consideration. When the Whig members realized the seriousness of the bank's situation, they planned to absent themselves from the room and thus break up the quorum and prevent adjournment. When the fifth of December arrived they proceeded to carry out their plot, but the Democrats grasped the situation and by guarding the doors and windows until a motion for adjournment could be carried, won the day and forced the bank to the choice of resumption or liquidation.¹⁶⁹

The state bank, in common with those of the entire West and South, had originally planned to resume voluntarily, January 15, 1841, but now that it was suddenly confronted with the danger of losing its charter, the directors hurriedly voted to resume at once.¹⁷⁰ In order to fortify itself as much as possible in its single-handed battle, the bank ceased discounting entirely and refrained from the issue of notes as far as possible. As a somewhat pardonable measure of revenge upon the legislature, it was ordered that all further advances to the state should cease. The bank had been very liberal in allowing the state to overdraw its account to the extent of \$196,000 and the directors estimated that at the present rate this overdraft would amount to about \$300,000 by the end of the next year. In undertaking to resume specie payments, the bank was not only compelled to cut off all sources of profit but was offering several cents premium for specie, hence its officers felt

¹⁶⁹Letter of W. Fithian to A. Williams, December 6, 1840, in *Williams-Woodbury MSS.*; Ford, *History of Illinois*, 225; *Reports of Session (Senate)*, 1840-41, p. 12.

¹⁷⁰*Sangamo Journal*, December 18, 1840.

no compunctions about refusing further advances to the state.¹⁷¹

The directors had adopted this policy of resuming single-handed with the firm belief that the other banks would live up to their agreement to resume, January 15, but as that day drew near instead of specie, only excuses were offered to note holders and the State Bank of Illinois continued to fight it out alone.¹⁷² On January 25, the representatives of the banks of Kentucky, Indiana, Ohio and Illinois met in convention at Louisville to fix another date for resumption, but failing to reach a decision, they arranged for a second meeting at some distant date. The state bank's officials came home thoroughly discouraged, for there seemed to be no prospect for a general resumption within the next six months or possibly a year. During the bank's own brief period of resumption \$455,000 in specie had been withdrawn by note holders and it was evident that such a situation could not long continue.¹⁷³ And yet, on the other hand, the surrender of the charter would involve the sale of the state bonds at an enormous loss and the collection of loans at a time when the borrowers were unable to meet their obligations in full. The curtailment of the bank's activities and the contraction of the currency by the retirement of the \$455,000 of redeemed notes had already caused a fall in prices, and made the lot of the debtor increasingly hard. These considerations were presented by the directors of the state bank to the legislature in the form of a memorial, in which was also incorporated a request for further authorization of the suspension of specie payment.¹⁷⁴

In the interval which had elapsed since the legislature had brought about the humiliation of the state bank, the members had occasion to pay dearly for their cruel sport, for as soon as the bank had been compelled to resume, it

¹⁷¹*Reports of Session* (Senate), 1840-41, p. 14.

¹⁷²*Chicago American*, January 15, 1841.

¹⁷³*Reports of Session* (Senate), 1840-41, pp. 416 ff.

¹⁷⁴*Ibid.*

stopped cashing their salary warrants and they were compelled to dispose of them at half their value.¹⁷⁵ Consequently, as the session drew near its close, those members who had been so eager to compel a strict compliance with the law were now disposed to show mercy. Accordingly, by the act of February 27, 1841, the banks of the state were declared free to suspend until the other banks of the South and West should resume. As the *New York Evening Post* put it, "the Illinois legislature has authorized the sale of indulgences."¹⁷⁶ The act even set aside any forfeiture that might have accrued before December 5, 1840. In addition to the long list of restrictions imposed at the time of the last suspension, it was further provided that the interest on loans should be reduced one per cent, in order to accommodate the more impecunious borrowers. Until January 1, 1843, the state bank could issue one, two and three dollar notes, but, in return for this and other favors, it was forced to purchase of the state at par fifty thousand dollars' worth of six per cent bonds every six months for two years. The state treasurer was specifically instructed, however, not to use the money thus obtained for paying any of the state's indebtedness to the bank. The maximum amount for which a director, or any firm of which he was a member, could thereafter become liable, was reduced to \$5,000.¹⁷⁷

Both the state bank and the Bank of Illinois were compelled to give bonds as surety for an agreement not to pay any dividends to private stockholders during suspension, but they were both required to declare "to the full amount" the "just and proper dividends on the state's stock."¹⁷⁸ Owing to a slight difference in the wording of their respective charters, the Bank of Illinois had been paying a capital stock tax on all its paid up capital while the state bank paid only on the three-sevenths of its capital owned by individuals. The inequality was remedied in the "suspen-

¹⁷⁵*Chicago American*, December 18, 1840; Ford, *History of Illinois*, 225.

¹⁷⁶Quoted by *Sangamo Journal*, April 2, 1841.

¹⁷⁷*Laws of Illinois*, 1840-41, p. 40.

¹⁷⁸*Ibid.*, p. 42.

sion act" by the imposition of a "bonus" of one-half of one per cent per annum on all the state shares of the state bank.¹⁷⁹ The legislature at the same session, authorized the auditor, treasurer and secretary of state to settle with the Bank of Illinois for generous advances made by it to the state capitol building fund and the internal improvement account. The bank was given the warrant of the auditor for the full amount, payable after 1850, with interest at six per cent.¹⁸⁰

The state bank had never been permitted to issue notes of a less denomination than five dollars, and this indulgence was granted now in the belief that the ones, twos, and threes would supply the place filled by gold and silver and thus the banks would soon be able to accumulate a sufficient amount of the displaced coins to warrant early resumption of specie payments. But instead of facilitating resumption the small notes had the opposite effect and the task of accumulating specie became more difficult than before.¹⁸¹ Instead of continuing their policy of retrenchment the officers of the state bank plunged more deeply than ever into financial difficulties. They enlarged its circulation and proceeded to erect a costly banking house, while its stock was quoted at thirty-seven cents on the dollar and the institution itself was rated in New York as utterly insolvent.¹⁸² In spite of this condition of affairs the directors voted themselves, as compensation for their services, the use of four thousand dollars each, without interest.¹⁸³ When June 1 arrived the directors purchased fifty thousand dollars' worth of state bonds as required by the suspension act, but were unable to pay any dividends on state stock.¹⁸⁴

So long as the Bank of Illinois continued under the careful management of John Marshall and his colleagues,

¹⁷⁹ *Session Reports*, 1840-41, p. 186.

¹⁸⁰ *Laws of Illinois*, 1840-41, p. 39.

¹⁸¹ Ford, *History of Illinois*, 226.

¹⁸² *Chicago Democrat*, September 14, 1841.

¹⁸³ *Sangamo Journal*, November 19, 1841.

¹⁸⁴ *Ibid.*, July 23, 1841.

who had guided the bank's affairs in the old territorial days and had revived its charter in 1834, it was at least able to bear up under the crushing load which its partnership with the state had thrust upon it. Its affairs, however, were becoming badly entangled and when it paid the semi-annual dividend in July, its resources were strained to the utmost.¹⁸⁵ Although the directors had suspended specie payments whenever the other banks of the West had taken such action, they did so with impunity, for they were not liable to forfeiture of their charter. But at length the anti-Marshall faction among the stockholders, defeated in their effort to oust the officers of the bank and to place J. C. Stickney at the head of affairs, instituted quo warranto proceedings based upon the plea that the charter of the bank was unconstitutional. As was noted in an earlier part of this discussion, the court decided in favor of the bank's charter.¹⁸⁶ At the annual election of officers, January 2, 1843, Mr. Marshall declined election as president and the bank's policy was soon changed to one of getting all that was possible out of a doomed enterprise before it should go to pieces. In their effort to carry out this policy the directors even attempted to defraud the state, as will be seen in connection with the settlement of the bank's affairs.

In spite of the ever increasing evils of state banking, the Illinois Whigs continued in their loyalty and argued that all that was needed to remedy the situation was another national bank to act as a regulator of the state institutions.¹⁸⁷ The opposition of the Democrats was considered by the Whigs as disloyalty to the country's institutions. On the other hand, "the Whigs in the estimation of the Democrats were a set of bank vassals, and were frequently called by the Democrats 'the ragocracy.' The presi-

¹⁸⁵ *Sangamo Journal*, July 23, 1841.

¹⁸⁶ *Ibid.*, January 21, 1841. Decision of the supreme court is found in 1 Gilm. 672.

¹⁸⁷ *Ibid.*, November 12, 1841.

dents and directors of the bank were called 'rag barons,' bank paper was called 'bank rags,' and 'written' or 'printed lies,' ”¹⁸⁸

Now that the state had finally abandoned the various internal improvement projects, several of the directors of the bank became interested in a proposition to take over the Northern Cross Railroad, which was the most promising of the projected lines of railway. Accordingly, they entered into an agreement to complete the line for the state and to receive payment in Illinois and Michigan Canal bonds.¹⁸⁹ These same directors with the aid of their fellows had made a rule that the bank should not expand its issue of paper during the suspension of specie payments, but now they proceeded to disregard the bank's condition and voted themselves and their business partners generous loans for building the railroad. When a beginning had been made it was easy to continue and even the state came in for an advance to piece out her insufficient revenues.¹⁹⁰ Finally in February, 1842, the directors announced that the bank had been compelled to suspend all its operations for an indefinite period. This announcement was followed by the rapid depreciation of its paper. By March 25, the notes had fallen in value from eighty-five cents to fifty,¹⁹¹ while in April they were quoted at forty-four cents.¹⁹² In May the directors discontinued the Chicago, Danville and Jacksonville branches and moved their specie to the parent bank. Instead of resumption, everything now pointed to liquidation.¹⁹³ It was confidently expected that the Bank of Illinois would be in a position to resume specie payments in June along with the other western banks, but

¹⁸⁸Ford, *History of Illinois*, 227. See, also, article from *Belleville Representative* copied in *Sangamo Journal*, February 16, 1839.

¹⁸⁹Ford, *History of Illinois*, 227.

¹⁹⁰*Ibid.*, 223.

¹⁹¹*Sangamo Journal*, March 25, 1842.

¹⁹²*Ibid.*, April 8, 1842.

¹⁹³*Ibid.*, May 13, 1842.

when the day agreed upon arrived the directors announced that they had been compelled to follow the state bank's example and had therefore ordered an indefinite cessation of the bank's activities.¹⁹⁴

During the year ending June 30, 1842, one hundred and fifty-two other banks in the United States had closed their doors and the rest had greatly reduced their circulation in preparation for the resumption of specie payments. This had led the people of the State of Illinois to rely all the more upon the issues of the Illinois banks until they too suspended operations and their paper became thoroughly discredited.¹⁹⁵ Moreover, specie to the amount of \$798,998.69 lay inaccessible in their vaults. Large amounts of their notes were being accumulated by speculators from the easily frightened countrymen,¹⁹⁶ so that by December, 1842, there was not enough money in circulation to carry on the business of the community and resort was had to payment in kind.¹⁹⁷ For the first time the governor, auditor and treasurer made use of the provision in the act of January 16, 1836, which authorized them at any time to publish a proclamation forbidding the acceptance of state bank paper in payment of public dues. Collectors were further warned not to take the notes of the Shawneetown bank at more than their current value.

At this point, which marks the close of their active existence, the writer has brought together a sufficient number of the statements made by the two banks to the legislature to indicate: (1) The general character of their operations during the whole period of their activity; and (2) the specific changes of policy that occurred from year to year. The following table shows the balance sheet of the state bank for the dates indicated:

¹⁹⁴ Goodspeed, pub., *History of Gallatin, etc., Counties*, 100.

¹⁹⁵ *Senate Journal*, 1842-43, p. 20.

¹⁹⁶ *Ibid.*, 43.

¹⁹⁷ *Ibid.*, 18, 19.

Items	September 14, 1835	January 17, 1837	July 1, 1839	November 16, 1840	December 1, 1842
Discounts	\$ 278,293.31	\$1,397,463.24	\$3,287,770.60	\$1,707,751.17	\$1,395,087.07
Bills of exchange	31,445.60	1,247,495.35	1,053,139.98	447,040.53	118,814.57
Loans	4,164.00	458,828.00	469,521.50	423,854.10	219,063.70
Real estate, etc.			44,399.85	471,995.46	1,144,666.35
Incidental expenses	3,723.62	5,614.16	6,816.60	14,699.51	777.76
Branch balances		107,304.71	74,597.89	15,990.34	15,614.61
Illinois securities			2,763,750.00	2,101,849.59	1,793,534.50
Advances to the state			28,748.73	243,397.07	448,869.59
Due from other banks	209,396.30	308,990.56	274,283.56	797,278.16	27,312.42
Notes of other banks	20,150.00	185,575.00	243,412.00	120,977.00	23,179.00
Specie	243,223.16	552,702.78	692,482.54	529,640.04	491,598.22
Total	795,645.88	4,293,941.45	8,938,923.25	7,555,069.92	5,758,977.80
Capital	278,739.11	1,413,360.00	3,644,655.00	3,646,125.00	3,637,500.00
Real estate fund	200,000.00	550,000.00	500,000.00	400,000.00	200,000.00
Contingent fund			76,436.79	90,000.00	90,000.00
Undivided profits	8,661.67	68,668.96	22,015.95	86,790.04	280,497.38
Circulation	178,810.00	1,429,815.00	3,958,925.00	3,105,615.00	1,454,279.00
Unclaimed dividends		4,936.50	5,825.50	1,663.50	772.00
Canal commissioners		298,799.58	15,133.45	21,726.07	9,316.84
Fund commissioners			693,703.74		
Due to other banks	5,739.62	53,095.78	446,745.42	117,893.49	5,866.04
Individual deposits	123,695.48	475,265.63	475,482.40	85,850.76	75,918.40
Other liabilities			67,736.37	306.06	4,828.14

The first statement was made just three months after the bank began business as a private institution. The items in the balance sheet reveal the sources of the funds with which the bank carried on its earlier operations as well as the character of the accommodations extended to borrowers. Subscribers to the \$1,400,000 capital stock had made payments to the amount of \$278,739.11 in "specie or its equivalent." Judging from the large amount of specie on hand payments must have been made generally through that medium or with funds readily convertible into specie. The \$209,396.30 due from other banks is almost entirely offset by the item, "real estate fund, \$200,000." The bank had recently borrowed this amount in the East for the purpose of reloaning it on real estate, and the money was still on deposit in a New York bank.¹⁹⁸ Individual deposits form a larger percentage of total liabilities than at any subsequent report. The bank had but a small supply of notes at this time on account of a delay in the shipment of the separate issues provided for each of the branches.¹⁹⁹

Since the real estate fund was not yet available, scarcely any loans had been made on real estate, the business being confined to the purchase of bills of exchange and the discounting of promissory notes.

By January, 1837, the date of the next statement given in the above table, a great change had occurred. Almost all the capital stock had been paid for and an additional sum of \$350,000 had been borrowed to re-lend on real estate security. The specie reserve had been increased 225 per cent, while the note issue had been expanded to seven times the amount outstanding in 1835. The bank as the depository for state funds had on hand \$298,799.58 of the proceeds from the sale of Illinois and Michigan Canal bonds, in addition to individual deposits of \$475,265.63. The constant drafts on the canal funds, however, made that item of little benefit to the bank. The large circulation out-

¹⁹⁸U. S., H. of R., 24 Cong., 2 Sess., Doc. no. 193, p. 603.

¹⁹⁹*Ibid.*, 615.

standing indicates that most of the loans and discounts were received in the form of the bank's notes. The year 1836 had been marked by a great demand for accommodation on the part of land speculators and the bank had expanded its loans very rapidly; in fact, but a few weeks before this statement was made it had been compelled to suspend its discount business until it could receive a shipment of \$280,000 in specie from New York and New Orleans. At this period the purchase of bills of exchange arising from sales of produce in the South and East formed a large part of the bank's business, for the reason that the bills were readily converted into specie while the ordinary loans or discounts at this period were considered as "slow" assets.²⁰⁰ The connection of the bank with the lead and pork speculation accounts for a large amount of the outstanding accommodations.²⁰¹

At the time of the next report recorded in the table, the volume of the bank's business had reached the maximum point. The individual stockholders had paid in the full amount of the first stock issue of \$1,400,000 and had to their credit \$144,655 on the second issue of one million dollars. In the meantime the state had received its \$2,100,000 in shares, making the total paid up capital \$3,644,655.00. However, instead of paying in cash for its shares, the state had turned over to the bank \$1,765,000 in bonds. The bank had also been practically compelled to buy \$700,000 worth of canal bonds and about \$300,000 worth of other state securities, in order to retain the good will of the legislature. Thus \$2,763,750.00 of the bank's resources were tied up in securities of questionable value and \$28,748.73 more had been advanced without interest in order to help make up the deficit in the current expenses of the state government.²⁰² The proceeds of a recent sale of internal improvement bonds had been deposited with

²⁰⁰Special Report, Investigating Committee, 1836-37, p. 40.

²⁰¹Reports of Session (Senate), 1839-40, pp. 266, 331, 332, *et passim*.

²⁰²Ibid., p. 263.

the bank by the fund commissioners and had increased the total deposits to over a million dollars; but the deposit items were soon reduced to their normal amount and as the difficulties of the bank increased, rapidly disappeared. The circulation of the bank had more than doubled, but the reserve had increased but twenty-five per cent and was equal to but thirteen per cent of the liabilities other than capital stock. The heavy drafts made upon the bank by the state enabled it to turn to a profitable use but \$3,700,000 out of its total resources of \$8,900,000. The reckless advances made to favorites had increased the discount item to the amount of \$3,287,770.60, but almost a million dollars of this amount was pronounced worthless by Doctor Murphy of the legislative investigating committee.²⁰³

The report for November 16, 1840, shows a marked decline in the general activities of the state bank. But \$1,470 had been paid in by private stockholders, making a total of \$146,125 paid in on the million dollars stock issue to individuals. The amount loaned on real estate had been reduced and one hundred thousand dollars returned to the original holders of the fund. A surplus of \$90,000 had been accumulated for emergencies but the deposits of over a million dollars had shrunk to \$107,000. In the face of unfavorable conditions the note issue had been increased while the reserve had decreased more than twenty-three per cent. In their efforts to protect the bank from loss the bank officials were compelled to bid in at judgment sales large amounts of property which they had accepted as security for loans. As may be seen from the "real estate" item, nearly half a million dollars was tied up in this way. The items, "Illinois securities, \$2,101,899.59," and "Advances to the state, \$243,397.07," indicate what a crushing load the partnership had placed upon the bank's resources. The first amount indicates that the bank had been able to dispose of \$600,000 worth of bonds, probably at a heavy discount. The second shows the severe drain that was being

²⁰³*Reports of Session, (Senate), 1839-40, p. 263.*

made upon the bank to meet the state's current obligations, \$193,300.65 of it being for the ordinary expenses of government while the remaining \$50,096.42 represents advances for labor and material employed in the internal improvement projects.

The decrease of fifty per cent in discounts and bills of exchange purchased as well as the accumulation of large amounts in eastern banks and listed in the statement as a part of the "\$797,278.16 due from other banks" shows that the bank was preparing to resume specie payment along with the other banks of the West and South.²⁰⁴

By the time the next report was made, the bank was hopelessly insolvent. It had practically suspended all operations but the settlement of outstanding accounts. \$568,742.22 of the discounts were listed on the bank's books as "suspended debt" and much of the remaining \$826,344.85 as well as the loans on real estate later proved to be worthless. Through the foreclosure of mortgages it had come into possession of over a million dollars' worth of land, but, as will be seen, only a small part of this amount was ever realized. Some of the bonds had been sold but the state had continued to demand advances for current expenses until \$448,869.59 was due the bank. The bank had suspended its operations since February, 1842, and its supply of specie remained intact. During the preceding period of enforced resumption it had redeemed a large amount of its paper but there was still almost a million and a half outstanding. The large amount of undivided profits is due to the fact that the bank had been forbidden by the legislature to declare dividends during a suspension of specie payments. The bank continued in a dormant condition until February, 1843, when it went into liquidation under conditions which will be considered presently.

²⁰⁴*Reports of Session, 1840-1, 14.*

The following table shows the condition of the Bank of Illinois at various periods:

	Aug. 5, 1837	Dec. 1, 1838	Nov. 2, 1840	Nov. 12, 1842
Loans and discounts.....	\$243,318.31	\$1,005,568.84	\$1,339,215.00	\$1,170,619.87
Bills of exchange.....	15,444.76	78,850.61	270,738.40	201,843.76
Suspended debts			28,313.41	133,869.59
Advances to fund				
commissioners			240,037.04	
Advances for state				
house			84,197.00	
Illinois securities		500,000.00	25,280.96	370,818.84
Insurance stock			1,500.00	11,200.00
Due from banks.....	41,727.93	517,121.58	308,539.63	44,853.48
Real estate	975.00	11,331.91	62,426.95	98,661.24
Incidental expenses....	29.25	28,874.95	6,566.67	6,892.05
Specie	158,610.34	306,708.05	413,255.38	307,040.47
Notes of other banks	45,450.00	82,772.00	63,147.00	2,605.00
Other assets.....				11,982.22
TOTAL		2,531,227.54	2,843,217.44	2,360,386.02
Capital		1,288,400.00	1,342,740.00	1,349,240.00
Circulation	64,846.00	712,204.00	1,262,414.00	757,848.00
United States de-				
posits	39,795.90	40.00	40.00	40.00
Unclaimed dividend....		404.00	707.44	1,908.00
Individual deposits.....	121,238.80	74,998.60	90,552.30	88,634.69
Due to banks.....		108,665.62	31,211.41	11,684.15
Branch balances			15,533.35	
Undivided profits		32,029.53	32,838.97	24,092.89
Surplus fund		4,489.52	67,179.97	126,938.29

The statement for August 5, 1837, shows the condition of the bank shortly before its transformation from a private into a quasi-state institution and its consequent entanglement in the state's disordered finances. The bank at that time enjoyed an excellent reputation and its balance sheet shows that its creditors were well protected.²⁰⁵ As special depository for the receipts of the land office at Shawneetown it was subjected to the supervision of the secretary of the treasury. As has been indicated in another

²⁰⁵ *Senate Journal*, 1836-37, p. 352; U. S., *Letter of the Secy. of the Treas. on State Banks*, 1838, pp. 778-83.

connection, the bank as a private institution performed a useful service in southeastern Illinois, confining its accommodations to lending on local real estate, discounting commercial paper and purchasing bills of exchange from commission men who had sold grain and live stock "down the river."²⁰⁶

Before the next report listed in the above table appeared, the state had subscribed for a million dollars' worth of the bank's stock, paying \$100,000 in cash and the rest in bonds. At the time of the report, December 1, 1838, the bank had disposed of \$400,000 worth of the bonds.²⁰⁷ It will be seen that the partnership with the state brought about a radical change in the bank's condition. The federal government had withdrawn its deposits with the exception of the nominal sum of forty dollars. The deposits of individuals had decreased forty per cent but the fund commissioners had placed in the bank proceeds from the sale of bonds to the amount of \$309,996.27. Under the new regime individual deposits ceased to play an important part in the bank's affairs while the deposits made by various state officials never remained in the bank's keeping for any length of time. The large amount (\$517,121.58) due from banks may be accounted for by the fact that the bank was now the fiscal agent of the state and was concerned in the transfer of funds for the prosecution of the internal improvement enterprises. The bank no longer confined its operations to southeastern Illinois, but with its branches in several important business centers its activities covered a large part of the state. In this way the great increase in the volume of loans, discounts and bills of exchange, as well as the greatly expanded note issue, may be explained.

The report of November 2, 1840, almost two years later, shows an increased volume of business, but in reality the bank was in a much weaker condition. \$28,313.41 of its assets were already listed as suspended debt and, as afterwards developed, a large part of the loans and discounts

²⁰⁶Page 82.

²⁰⁷Ford, *History of Illinois*, 190.

were uncollectible. Officials in charge of the construction of the new capitol building had obtained advances of \$84,197 without interest, while similar favors had been granted to the fund commissioners for the prosecution of internal improvements. The Bank of Illinois had been more fortunate than the state bank in that it had been able to dispose of all but \$25,280.96 of its state bonds. The large increase in the "real estate" item is probably due to the erection of a banking house at Shawneetown at a cost, when completed, of \$80,000.²⁰⁸ The bank had suspended specie payments in October, 1839, and had thus been able to maintain its specie reserve pending resumption by all the western banks in January, 1841.²⁰⁹ Meanwhile, the outstanding circulation had increased steadily until it was now greater by seventy-five per cent than in 1838. The comparatively large amount of undivided profits represents the earnings which had accumulated since the semi-annual dividend of three per cent in June. It will be noted that during the preceding two years a considerable sum had been set aside by the directors as a surplus.

In June, 1842, as has been noted, the Bank of Illinois suspended operations and soon after the date of the last report in the table went into liquidation. Comparatively little change had occurred in the status of loans and discounts save that an increased amount had been charged under "suspended debts." The \$370,818.34 listed under "Illinois securities" represents the scrip given to the bank by the state in payment of the advances noted in the report for 1840. The \$11,982.22 listed in the table as other assets represents the balances of the various branches. The bank had withdrawn a considerable amount of its paper from circulation and had increased its surplus to \$126,938.29 but, as will be seen, its loans and discounts proved to be entirely undependable when the final settlement was made.

In the gubernatorial campaign of 1842 former Governor Duncan became the candidate of the Whigs against

²⁰⁸Goodspeed, pub., *History of Gallatin, etc., Counties*, 100.

²⁰⁹*Sangamo Journal*, December 19, 1840; *Laws of Illinois*, 1839-40, p. 15.

Judge Ford of the supreme court. The Democrats stigmatized Mr. Duncan as a British bank Whig and he in turn cited his various acts while governor as consistently hostile to the banks.²¹⁰ The majority in both parties was in favor of putting the banks into liquidation, but a few still clung to the hope that the banks would soon resume their operations. Judge Ford, the Democratic candidate, took the stand that a compromise should be made by which the state and the banks would dissolve partnership, leaving them to settle up their own affairs and go out of business.²¹¹ In spite of the presence of a substantial element of radical anti-bank Democrats in his party, Judge Ford was elected. The sympathies of Mr. Carlin, the retiring governor, were with the more radical wing of his party but, out of deference to Mr. Ford, he agreed to omit from his farewell message the paragraphs recommending summary treatment of the banks.²¹² In the meantime, however, he succumbed to the influence of the anti-bank element and, much to Mr. Ford's surprise, recommended to the legislature prompt repeal of the banks' charters.²¹³ He gave as his reason for urging such action that the banks deserved no further respite, for they had utterly failed to accomplish the purpose for which they were created. He felt that the time had come when the freedom of the individual citizen should be asserted against the domination of vested interests. In his inaugural message, Governor Ford presented the possible avenues of escape from the existing bank situation and the consequences attached to each of them. The first was to allow the banks to make an effort at resumption; the second, to wind them up abruptly and withdraw their notes; the third, to effect a compromise by which the state bonds held by the banks would be exchanged for the state's stock in the banks, dollar for dollar. He argued that the first plan would be feasible in the case of a small neighborhood institution, but wholly impracticable in the case of banks

²¹⁰ *Sangamo Journal*, May 13, 1842.

²¹¹ Ford, *History of Illinois*, 293; *Alton Telegraph*, April 1, 1843.

²¹² Ford, *History of Illinois*, 298.

²¹³ *Senate Journal*, 1842-43, p. 21.

with a circulation of four and a half millions scattered over the whole United States. In opposition to the second, and in support of the third, plan he argued that if the state's three millions in stock of suspended banks were thrown upon the market very little could be realized and the value of the shares of individuals would be practically wiped out.²¹⁴

Mr. Ford was opposed in the legislature by the radical wing of his party under the leadership of Secretary of State Trumbull. In fact, Mr. Trumbull became so active in his opposition to a compromise with the banks that the governor removed him from office.²¹⁵ In spite of the anti-bank faction, however, a joint resolution was passed recommending the dissolution of the connection between the state and the banks, and authorizing the governor, auditor and fund commissioner to find out upon what basis a settlement could be had.²¹⁶ These officers entered into negotiations with the banks and in a short time submitted the following report from the state bank: The state was indebted to the bank to the extent of \$2,152,404.09,²¹⁷ while the bank was liable to the state for \$2,100,000 invested in shares of stock. The directors were willing to settle with the state by exchanging the bonds and other evidences of state indebtedness for stock, dollar for dollar. The relationship between the two would thus be dissolved and the bank would be allowed to continue as a private institution with only a nominal amount of state shares to use as a defense against attacks on its constitutionality.²¹⁸ This plan was embodied

²¹⁴*Senate Journal*, 1842-43, pp. 36 ff.

²¹⁵*Independent Democrat* (Springfield), March 20, 1843; Gerhard, *Illinois as it is*, 103.

²¹⁶*Laws of Illinois*, 1842-43, p. 321.

²¹⁷This amount was made up as follows:

Bonds	\$1,686,000.00
Scrip	17,534.50
Advances for current expenses.....	292,373.17
Advances to fund commissioners.....	156,496.42

	\$2,152,404.09

²¹⁸*Reports of Session* (Senate), 1842-43, p. 94.

in a bill drawn up by Governor Ford and presented by Mr. McClerland, chairman of the House committee on finance. In his speech, which was later published in pamphlet form, Mr. McClerland showed in an able manner the unquestionable wisdom of a complete divorce between the state and the banks. He estimated that the state had already paid out \$360,000 interest on the bonds used in buying bank stock and had received in dividends but \$207,500. If she continued this relationship, at the present outlook she would be called upon to meet the interest but with the prospect of no dividends whatever.²¹⁹ The bill was passed by a vote of 107 to 4 and sent to the senate, where the opposition tried to kill it with amendments, but it was passed without serious difficulty and received the approval of the council of revision.

The act required the state bank to go into liquidation at once and within thirty days to pay all its specie over its counters, except fifteen thousand dollars, to depositors and holders of notes. The officers of the bank were first to ascertain the ratio which the supply of specie on hand bore to the amount of notes and deposits and no person was to receive more than that proportion of his claim in specie. For the balancee, he was to be given certificates good for payment of debts to the bank and for the purchase of bank land sold on execution. Four years were allowed for the complete settlement of affairs and at the end of each year a distribution of specie was to occur until all notes and certificates were redeemed. Debtors, however, were to be allowed to pay their obligations in five instalments. The act created the office of state bank commissioner, whose duties were as follows: (1) superintend the transactions of the bank officers; (2) act as a state director; (3) obtain information (by administering oaths, if necessary), and stop all questionable practices with court injunction, if needed. The bank was given only three days in which to accept or reject the provisions of the law. If it accepted,

²¹⁹Speech of J. A. McClerland: *On Bill to Divorce Banks of Illinois from State.*

it must deliver to the governor evidences of state indebtedness to the amount of \$2,050,000 and receive from him a like amount of its stock.²²⁰ The state directors were then required to resign in favor of the state bank commissioner, and if any differences should thereafter arise between the state and the private directors the matter must be left to arbitration.²²¹ All the branches were to be closed at once and all the bank's property appraised and sold at public auction.²²²

The terms of the act were promptly approved by the directors, who delivered to the governor \$1,786,000 in bonds and \$287,501.51 in auditor's warrants, thereby reducing the state debt by \$2,073,501.51.²²³ When the governor and the general assembly gathered in front of the state house and made a bonfire of the bonds, the spirit of repudiation was destroyed with them and the general feeling prevailed that the state was on the road to recovery from the effects of six years of folly.²²⁴ The legislature then proceeded to enact several minor laws relating to the banks, chief among which was the act of February 23, which provided that no note issued by an Illinois bank should be received for public dues and that holders of auditors' warrants should cease to receive interest.²²⁵ The act of February 25 authorized the treasurer to pay out all Illinois bank notes in his possession at their current value, which at that time was less than fifty cents on the dollar.²²⁶

Governor Ford appointed N. H. Purple state bank commissioner and he assumed his duties, January 31. In his examination of the bank's books he found that \$476,-

²²⁰This left a nominal state holding of \$50,000 in the bank.

²²¹This method was resorted to on August 14, 1845, in order to settle a claim held by the bank against the state. The arbitrators awarded the bank \$85,380.45. *Reports of Session* (H. of R.), 1846-47, p. 20.

²²²*Laws of Illinois*, 1842-43, pp. 21 ff.

²²³Greene and Thompson, *Governors' Letter-Books*, ii, 51-53.

²²⁴February 9, 1843. *Senate Journal*, 1844-45, p. 10; Greene and Thompson, *Governors' Letter-Books*, ii, 54.

²²⁵*Laws of Illinois*, 1842-43, p. 231.

²²⁶*Ibid.*, 231.

772.53 in specie was available for paying noteholders and depositors. Of this amount, he authorized the cashier to pay \$8,432 on a judgment and \$15,000 was placed on reserve according to the terms of the liquidation act. The remaining \$453,349.53 was distributed among the depositors and noteholders as their first dividend. By the time Mr. Purple made his first report, December 2, 1844, the bank had reduced the outstanding circulation from \$1,-430,308 to \$229,901.00 and its total liabilities other than capital stock to \$870,000. In his judgment, the assets would be sufficient to meet this obligation, but he offered no encouragement to the holders of the more than \$1,500,000 worth of capital stock.²²⁷

In his message to the legislature, which met in December, 1844, Governor Ford commented on the great improvement that had taken place. The depreciated notes of the banks had been withdrawn from circulation and specie and the paper of specie paying banks had succeeded them. A period of economy had followed the reckless extravagance and accumulation of indebtedness which characterized the whole internal improvement era. Mr. Ford granted that banks were necessary to a community with well established business interests, but he was convinced from almost thirty years of observation that Illinois succeeded better without them. He cited the three successive failures in conducting banks in the state as proof of his assertion and added that so long as debtors were so indifferent about meeting their obligations a bank was impossible.²²⁸

During the year 1845 some progress toward a final settlement was made by the state bank, but its assets were shrinking at an alarming rate. The expense account due to salaries, taxes, fees and court costs left little for the creditor. In his report for 1846 the commissioner listed under available assets: bills and notes receivable, \$432,-856.35, suspended debts \$460,098.21, loans \$50,218.23, real estate (nearly all of it pledged by bank debtors) \$1,009,-

²²⁷*Reports of Session (H. of R.), 1844-45, p. 123.*

²²⁸*Senate Journal, 1844-45, p. 10.*

522.86, which, with \$11,193.21 in coin, made a total of \$1,020,716.07. On the other hand, the liabilities other than capital amounted to \$663,073.62, so that if every dollar of the assets could be realized there would be left for the holders of \$1,544,655 worth of stock but \$357,642.45, not to mention the fact that they had not received a dividend in several years.²²⁹ The editor of the *Alton Telegraph*, in commenting upon the situation, condemns the state for causing what he considers an entirely unmerited loss to the private stockholders. In proof of his assertion he cites the fact that the private holders of shares were compelled to pay for them with specie while for the greater part of the state's stock there was placed in the bank at their face value an issue of bonds worth but twenty cents on the dollar. He calculated that if the state had paid the same proportion of specie as had been exacted from individuals the bank could reimburse its shareholders to the extent of seventy-eight cents on the dollar instead of twenty-six, the former figures comparing favorably with the terms of settlement of any western bank.²³⁰

Governor Ford may be pardoned for mildly boasting in his farewell message in 1846 of the improvement in conditions since his inauguration in 1842. At the earlier date the state had become indebted for bank stock and internal improvements to the extent of over fourteen millions. The books of the treasurer showed a deficit of more than \$313,000 current expenses. The warrants of the auditor were received at fifty cents on the dollar and the state's credit had fallen into so great disrepute that the postmaster at Springfield refused to deliver any mail to the state house unless some one became personally liable for the postage. The "credit" habit had taken such a hold on the people that the liquidation of debts, both public and private, seemed hopeless. By 1846 the annual shortage for

²²⁹*Reports of Session* (H. of R.), 1846-47, p. 25.

²³⁰*Alton Telegraph*, July 4, 1846. The final outcome was that the stockholders received nothing at all. *Reports of Session* (Senate), 1859, p. 831.

current expenses amounted to but \$20,000. The warrants of the auditor were received nearly at par in spite of the fact that they no longer bore interest. The period of reckless banking had come to an end and a dependable currency had come in to take the place of depreciated notes. The state debt had been reduced by three millions and provision had been made to pay five millions more as soon as the canal should be completed. The general situation all over the country had improved, as was evidenced by the lively demand for land on the part of newly arrived settlers.²³¹

The feeling against banks was too universal to warrant a candidate for governor running on a pro-bank platform. Although the more intelligent citizens realized the need of adequate banking facilities, the politicians in both parties were eager to clear themselves of any responsibility for the events of the last ten years and announced their opposition to the incorporation of any more banks. Aside from a word of commendation for the bank policy of the Ford administration, Governor French in his inaugural address had little to say on the subject.²³² As the date set for the end of the state bank's existence (March 4, 1847) approached, Mr. French found that institution far from ready to wind up its affairs. The officers of the bank had collected nearly a million dollars, which was about all that the general condition of its debtors seemed to permit. For this reason only, the House committee on banks recommended that an extension of time be granted, but that in so doing care should be exercised "to leave no spark of vitality in the bank or its charter."²³³ This was seized upon by the advocates of the bank, however, as the psychological moment for securing the revival of the state bank, and they presented a bill to recharter that institution for five years. A surprisingly large minority was found to be in favor of

²³¹*Senate Journal*, 1846-47, pp. 8 ff.

²³²*Ibid.*, pp. 15 ff.

²³³*Reports of Session* (H. of R.), 1846-47, p. 276.

the measure,²³⁴ but it was compelled to give way to the act of March 1, 1847, which extended the life of the bank until November 1, 1848, for the sole purpose of settling its affairs. It provided that if by that time the affairs of the bank were still unsettled the governor should appoint three trustees to wind up its business. The legislature was determined to discourage any undue procrastination on the part of the directors and incorporated several provisions calculated to stimulate a speedy settlement: (1) It was provided that the certificates given to note holders and depositors should draw six per cent interest until paid; (2) All accounts due the bank ceased to draw interest from the date of passage of the act; (3) Any creditor was thereafter at liberty to attach any of the bank's real estate and obtain judgment by forced sale; (4) The local assessors were commanded to tax all bank property within their jurisdiction, whereas before it had been exempted and a capital stock tax paid into the state treasury.²³⁵

When the first of November, 1848, arrived, the affairs of the bank were far from settlement, so the governor appointed N. H. Ridgely, the cashier, Uri Manly and John Calhoun trustees to settle its affairs. Thereupon the directors resigned and assigned all the remaining assets to the trustees.²³⁶ In their report to the governor in 1851, the trustees stated that the assets of the bank would not meet its liabilities and that the stock was utterly worthless. During their tenure of office they had collected only \$36,666.85 with which to pay obligations, other than capital stock, to the extent of \$454,190.96. The book value of the real estate and the suspended debts due the bank was \$1,444,000, but only a small part of this amount could ever be realized.²³⁷ Mr. Ridgely shortly afterwards offered to Governor French \$50,000 in state bonds in settlement of the stock still held by the state. Governor French refused

²³⁴*Chicago Democrat*, February 23, 1847.

²³⁵*Laws of Illinois*, 1846-47, p. 20.

²³⁶*Bankers Magazine*, iii, 382.

²³⁷*Reports of Session* (Senate), 1851, pp. 137, 138.

to take the bonds until he heard that a Cincinnati creditor of the bank was about to seize them. He then accepted them, with the approval of the legislature, and the state's connection with the bank was brought to an end.²³⁸

The settlement of the bank's affairs continued to drag along year after year until in 1857 Governor Bissell attempted to remove Messrs. Ridgely, Manly and Calhoun, and appointed three new trustees. The old board, however, refused to give up the property in their hands and Mr. Bissell instituted *quo warranto* proceedings to oust them. The court decided that with the surrender of the \$50,000 of state stock the bank ceased to be subject to the state's jurisdiction and that the removal of the trustees was possible only by judicial proceedings begun by a stockholder. Governor Bissell was determined nevertheless that the state should interfere in the conduct of the bank's affairs and secured the appointment of a committee of the legislature to inquire into the affairs of the trustees. They found that Mr. Manly had ceased to take an active interest in the bank's business and that Mr. Calhoun had moved to Kansas. These gentlemen, however, continued to draw the annual stipend of \$1,000, but they each remitted \$250 of this amount to Mr. Ridgely for doing all the work.²³⁹ Mr. Ridgely, when called to the stand, scored the committee for intruding into the affairs of a private institution, but gave them a fund of information about the progress that had been made and the reasons for delay in settlement.

The liabilities still outstanding in 1859—sixteen years after the bank had gone into liquidation—amounted to \$150,000, while the more than \$1,500,000 invested in capital stock was a total loss to the investors. The assets amounted to fifteen or twenty thousand dollars in cash and "some old debts due for fifteen or twenty years and practically worthless." The trustees had held office for eleven years, but had been able to declare but one dividend of sixteen and two-thirds per cent to the note holders and depositors.

²³⁸*Reports of Session*, 1859, p. 841. *Senate Journal*, 1852, p. 13.

²³⁹*Reports of Session* (H. of R.), 1859, p. 838.

Asked as to the trustees' plan for a final settlement, Mr. Ridgely replied that they purposed to advertise all the assets, chiefly land, for sale, but most of the land was very undesirable or had a faulty title. Arrangements for such a sale had all been completed when a Mr. Corwyth, the holder of a large amount of outstanding certificates, attached forty or fifty thousand dollars' worth of land in the lead region and the sale had to be postponed. Mr. Ridgely's explanation of the poor showing made by the trustees was that property had been accepted years ago at ten times its value and the notes of persons afterwards hopelessly insolvent had been freely discounted. One of the most interesting episodes in the lengthy examination occurred when the witness was questioned about the personal relations of the trustees with the bank:

Mr. Mack: "You are reaching a low point in the available assets of this bank and yet there is a constant and continuous drain upon these assets of at least three thousand dollars a year, to pay for the services of trustees when one man could discharge the duties just as well as three."

Witness (Mr. Ridgely): "There is no question of that. Then again, I suppose that the creditors and individual stockholders would rather have one trustee than three but the legislature thought otherwise."

Mr. Mack: "But suppose that the legislature should alter or repeal that law?"

Witness: "I don't think that they could touch it. . . . If we are under the supervision of the courts the legislature has no control over us."

Mr. Mack: "Mr. Calhoun (who had moved out of the state) could resign but you cannot remove him without application to a court of chancery . . . and up to the time the court removes him he continues to draw \$1,000 a year?"

Witness: "He never has drawn but \$750 a year. The arrangement was that I should do all the work and take half the pay (\$1,500)."²⁴⁰

The closing sale of the bank's real estate and chattels was held in November, 1862, when auctions were held at

²⁴⁰*Reports of Session (H. of R.), 1859, p. 838.*

Mineral Point, Wisconsin, and Springfield.²⁴¹ Upon the death of Mr. Ridgely, the trusteeship of the state bank was handed over to Mr. William Ridgely, his son, who has been called upon a number of times to help clear the title of property in which the bank had an interest at some time.²⁴²

The history of the settlement of the affairs of the Bank of Illinois at Shawneetown is somewhat similar to that of the state bank. At the time when a committee of state officers (1842) had inquired upon what terms the directors of the Bank of Illinois would settle they replied that they would buy the state's stock and pay for it with bonds; but instead of being compelled to go into liquidation they insisted upon continuing as a private institution.²⁴³ The legislature was determined that the bank should end its existence and yet could not make any alterations in the original charter without the bank's consent. In order to induce the directors to accept a plan for a compromise with the state similar to the one made with the state bank, and yet compel them to go into liquidation, two laws were passed. One, very stringent in its terms, provided for the immediate assignment of all the bank's assets to three commissioners who were to be clothed with extraordinary powers.²⁴⁴ The other was much more mild and provided for an equitable settlement with the state and the liquidation of the bank's affairs under the direction of its own officials.²⁴⁵ The scheme of the legislature succeeded and the bank committed itself to an agreement to turn over to the governor \$500,000 in evidences of state indebtedness at once, and the remaining \$500,000 within a year with interest at six per cent. The state was to retain three directors until the full amount was received. The governor accepted the first payment and surrendered a like amount of capital stock held by the state. The directors then pro-

²⁴¹*Bankers Magazine*, xvii, 476.

²⁴²An example of this is the site of the Auditorium Hotel and Theater in Chicago. Knox, *History of Banking in the United States*, 722.

²⁴³*Reports of Session*, 1842-43, p. 201.

²⁴⁴*Laws of Illinois*, 1842-43, p. 27.

²⁴⁵*Ibid.*, 30.

ceeded to wind up the bank's business under about the same provisions as had been laid down for the state bank.

The Bank of Illinois, as has been noted, had recently changed hands and was now controlled by a group of men who intended to make the most of their opportunity. Just before the passage of the liquidation act they borrowed \$100,000 of the bank's specie and spent it in buying state bonds for a few cents on the dollar. Among the bargains obtained was one from Macalister and Stebbins who had advanced \$261,500 to the state and were still holding \$804,000 as security. Although the title to these bonds was still vested in the state, the firm did not hesitate to dispose of \$333,000 worth of them to the Shawneetown bankers. These men now repaid their \$100,000 loan to the bank with bonds, reaping a profit of more than seventy cents on the dollar. But they did not stop at this point for they owed other large amounts which they now settled with bonds. When the time came for making a final settlement with the state, these Macalister and Stebbins bonds were tendered to Governor Ford at their face value. When the governor refused to accept them the directors sought to compel their acceptance by an order of the court but the judge refused to issue a mandamus against a co-ordinate branch of the government.²⁴⁶

When Governor Ford found that Macalister and Stebbins were unable to make a settlement with the state and that the Shawneetown bank shares held by the state were daily becoming more worthless, he received the disputed bonds subject to the consent of the legislature. For a time that body refused to give its sanction but later agreed to accept the bonds at forty-eight cents on the dollar, leaving a balance of \$295,000 still due from the bank.²⁴⁷ In December, 1844, after nearly two years devoted to settling the bank's affairs, the state commissioner reported that the cashier by paying \$166,885.50 in specie to creditors

²⁴⁶ Greene and Thompson, *Governors' Letter-Books*, ii, 106, 107.

²⁴⁷ *Ibid.*, 120; *Laws of Illinois*, 1844-45, p. 246.

and by matching debits against credits through the medium of the notes and certificates, had settled more than a third of the obligations other than capital stock. He estimated that from a half to three-fourths of the assets were good.²⁴⁸ The legislature decided, however, to abolish the office of commissioner and authorized the bank to place its property in the hands of four assignees. As fast as any evidences of state indebtedness came into the bank's hands, they were to be turned over to the state in payment of the \$295,000 still due it in the exchange of bonds for stock. If after four years the amount was not paid in full, the state's claims were to be preferred over that of the stockholders to the extent of \$20,000 if necessary. If, however, at the time of the final settlement there still remained a balance due the state, the assets were to be divided between the state and the private stockholders in proportion to the amount of their respective stock holdings at that time.²⁴⁹ The assignees found that the four years time allotted to them were entirely inadequate for the performance of their task so the legislature advanced the date of final settlement to January 1, 1851.²⁵⁰ After that date the assignees were given the power to sue in their own names; the assets and liabilities arising at Shawneetown and Lawrenceville were accepted by Messrs. Caldwell and Ryan and those at Jacksonville, Alton and Pekin by Messrs. Dunlap and Smith. The assignees had not only never paid the state any part of the \$295,000 still due but had allowed interest on it to accumulate to the extent of \$62,000.²⁵¹ In 1852 the State Bank of Missouri united with several other creditors in bringing a chancery suit in the federal courts against the Bank of Illinois and its assignees. The court ordered the assignees to turn over the bank's affairs to three receivers who were instructed to settle up the business as speedily as possible. The legis-

²⁴⁸*Reports of Session (H. of R.), 1844-45, p. 163.*

²⁴⁹*Laws of Illinois, 1844-45, p. 246.*

²⁵⁰*Ibid., 38.*

²⁵¹*Reports of Session (Senate), 1849, p. 104.*

lature ratified this action by an act recognizing the receivers as the legal successors of the Bank of Illinois.²⁵² Only one of the receivers qualified for the office and in 1853 he proceeded to sell at public auction the remaining effects of the bank. The handsome four story building erected at a cost of \$80,000 was bought by Governor Matteson for \$15,000 and other property was disposed of at similar sacrifices.²⁵³ The claims of the note holders and depositors seem to have been settled in a fairly satisfactory way but after the state had been reimbursed and the receivers' fees and court costs paid there was nothing left for the 14,884 private stockholders.²⁵⁴

But little attention was paid by the press or the legislature to the Bank of Cairo which was opened at Kaskaskia by a group of investors who had obtained possession of its unused territorial charter. As late as 1839 the bank bore a good reputation and furnished a considerable portion of the medium of exchange in south-western Illinois.²⁵⁵ A large portion of its stock was held by Wright and Company, London bankers, as agents for various owners, hence the policy of the bank could be dictated by the holders of their proxies.²⁵⁶ The directors suspended specie payment with the other western banks but on account of their limited clientage their action did not attract wide attention.²⁵⁷ In 1840 the Bank of Cairo was declared to be serving the interests of its locality better than the other Illinois banks were doing in their respective territories. It furnished about seventy per cent of the small notes in circulation in the region tributary to St. Louis, and thus supplied the demand for change much more easily than its larger rivals who depended upon gold and silver or the notes of other banks for amounts less than five dollars. The directors made a specialty of the small notes, for the fact that they

²⁵²*Laws of Illinois*, 1851, p. 120.

²⁵³Goodspeed, pub., *History of Gallatin, etc., Counties*, 100.

²⁵⁴*Chicago Democrat* (weekly), September 10, 1853.

²⁵⁵*Sangamo Journal*, December 24, 1839.

²⁵⁶*Chicago American*, January 15, 1841.

²⁵⁷Greene and Thompson, *Governors' Letter-Books*, ii, 60, 61.

were always in demand kept them from being presented for redemption.²⁵⁸ In reply to the charge of a St. Louis paper to the effect that the bank was not solvent, the cashier published a statement in September, 1840, of the resources and liabilities. At that time a circulation of \$200,138.00 and deposits of about \$13,000 constituted the only liabilities in addition to the capital and surplus of \$295,000. To offset these items there was specie to the amount of \$112,451.70, eastern exchange to the extent of \$10,096.85 and loans and discounts to the amount of about \$350,000. Of this last item more than \$250,000 was created by the purchase of bills of exchange arising from the shipment of produce down the Mississippi.²⁵⁹ The bank later became heavily involved in the operations of the Cairo City and Canal Company, a corporation engaged in constructing levees and other public works at Cairo, and its standing began to be questioned.²⁶⁰ The result was that the notes had depreciated five or ten per cent before those of the other Illinois banks had begun to suffer a discount.²⁶¹ A year later, the affairs of the bank were in so hopeless a condition that its paper was refused by brokers.²⁶² In February, 1843, the directors went into bankruptcy and assigned all the bank's property, thereby virtually surrendering their charter.²⁶³ Thereupon the legislature by the act of March 4, 1843, formally repealed the act of incorporation and provided a plan for the speedy settlement of the bank's affairs.²⁶⁴ Governor Ford and the legislature were criticized for the immediate repeal of the charter of the Cairo bank when the other banks were allowed such liberal terms of settlement. In his reply to these criticisms, the governor justified the more severe treatment of the Bank of Cairo by the fact that it had expanded its discounts

²⁵⁸*Chicago American*, September 18, 1840.

²⁵⁹*Ibid.*

²⁶⁰*Ibid.*, January 15 and 21, 1841.

²⁶¹*Ibid.*, July 2, 1841.

²⁶²*Chicago Democrat* (weekly), June 8, 1842.

²⁶³*Ibid.*, March 21, 1843.

²⁶⁴*Laws of Illinois*, 1842-43, p. 36.

beyond all hope of redeeming the consequent issue of notes, that it had operated under a charter of very doubtful legality and that the directors had already virtually surrendered the charter when they assigned their office and placed the bank in the hands of receivers.²⁶⁵ It was at first believed that with the specie in the vaults and the money obtained from the sale of the Cairo Canal Company's property the notes of the bank could be redeemed at par²⁶⁶ but the late cashier of the bank disappeared with the whole supply of specie. Some years later, enough was realized from the remaining assets to redeem the notes at five cents on the dollar.²⁶⁷

A history of the banking operations during the period of internal improvements would not be complete without some discussion of the more or less illegal banking operations that were carried on in Chicago.²⁶⁸ Up to 1835 there was little demand for banking facilities in Chicago. Gordon S. Hubbard, a local merchant, kept a bank account at Buffalo and supplied the other traders with drafts on the East. As has already been noted, however, the population and commercial importance of the village were increasing at so rapid a rate that the directors of the state bank located a branch in that place.²⁶⁹ The paper of the branch bank furnished but a small part of the circulating medium, however, for Chicago was rapidly becoming the commercial center of the whole Northwest; hence the bills of Wisconsin, Michigan and Indiana banks mingled freely with those of the Illinois banks and helped to drive out what little specie there was. For small change the merchants issued tickets "good for groceries," "good for tobacco," "good for a drink," etc., according to whatever business the person issuing the notes followed.²⁷⁰ The legislature of 1835-36,

²⁶⁵ Greene and Thompson, *Governors' Letter-Books*, ii, 60, 61.

²⁶⁶ *Chicago Democrat* (weekly), March 21, 1843.

²⁶⁷ *Illinois State Journal*, February 2, 1862.

²⁶⁸ This subject is treated at great length by Andreas in his *History of Chicago*.

²⁶⁹ Morris, *History of the First National Bank of Chicago*, 26.

²⁷⁰ Andreas, *History of Chicago*, i, 531.

in addition to chartering banks, had incorporated the Chicago Marine and Fire Insurance Company with a capital of \$100,000. After granting to the company the usual powers possessed by a concern of that character the privilege of receiving deposits and lending money was added but the issue of paper "in the similitude of bank notes" was strictly forbidden.²⁷¹ In May, 1837, the directors of the company announced that during the "deranged condition" attendant upon the panic of 1837 they would make loans and receive deposits. Depositors were given certificates redeemable in specie on demand which, although they bore no physical resemblance to bank notes, circulated freely at par. When the company finally went into voluntary liquidation its notes were redeemed and retired without the slightest loss or friction.²⁷²

In the meantime, Mr. George Smith of Aberdeen, Scotland, visited Chicago and was so impressed with the prospects of the city and the surrounding country that upon his return to his native land he induced his friends to unite with him in forming the Scottish Illinois Land and Investment Company. They bought and sold Illinois real estate, obtaining large returns until the panic of 1837 brought business to a standstill. Smith hastened to America to look after his interests and during his sojourn in Chicago was so impressed with the success of the Chicago Marine and Fire Insurance Company's operations that he decided to conduct a similar enterprise. Accordingly he obtained from the territorial legislature of Wisconsin the charter of the Wisconsin Marine and Fire Insurance Company with a capital of \$225,000, all of which was taken by Smith and a small group of fellow countrymen. The head office was nominally in Milwaukee, but Mr. Smith carried on the greater part of his operations in Chicago.²⁷³ In spite of the fact that the issue of certificates of deposit designed to circulate as money was forbidden by its charter, the company issued them freely, but maintained such high

²⁷¹*Laws of Illinois, 1835-36*, p. 30.

²⁷²*Chicago American*, May 16, 1837; *Bankers' Magazine*, xvi, 234.

²⁷³*Chicago Democrat* (weekly), January 29, 1846.

business standards that its paper was in universal demand and furnished a most acceptable addition to the medium of exchange. So great were the quick assets of the firm that the whole circulation could be taken up on short notice, hence it was never found necessary to suspend specie payment.²⁷⁴ Beginning with the modest sum of \$34,028 in 1841, the issue of certificates increased until in 1851 the total outstanding circulation amounted to \$1,470,000 and numerous agencies had been established to facilitate redemption.²⁷⁵ In addition the business men of the territory tributary to Chicago were provided with eastern funds at one to two per cent.²⁷⁶ The success of the enterprise aroused the opposition of the banks of the surrounding states and territories and in 1852 the legislature of Wisconsin was persuaded to force the company to retire its circulation.²⁷⁷ Meanwhile Smith had organized banks in Washington, D. C., and Atlanta, Georgia, and was issuing and redeeming their paper in the Northwest. When Illinois adopted the free banking law, which is to be discussed in another place, Smith incorporated the Bank of America under the Illinois law but its circulation was never very extensive. By 1857, having acquired a large fortune without a suspicion of crooked dealing attached to it he retired to his native land.²⁷⁸

For many years unincorporated firms in Chicago and elsewhere in the state had carried on a profitable banking business, but they were not permitted under the constitution of 1818 to incorporate as banks or to issue notes, hence they were usually classed as brokers. In conclusion, it may be said that as a whole the record made by the private banking institutions of this period, notwithstanding the illegality of the note issues of some of them, is very much more creditable than that made by the elaborately safeguarded state institutions.

²⁷⁴*Chicago American*, September 28, 1841.

²⁷⁵Andreas, *History of Chicago*, i, 532.

²⁷⁶Baldwin, *History of La Salle County*, 184.

²⁷⁷*Chicago Democrat* (daily), February 9, 1852.

²⁷⁸Knox, *History of Banking*, 726, 742.

CHAPTER V

THE FREE BANKING SYSTEM OF ILLINOIS

In commenting upon the situation which existed in Illinois just after the collapse of the banks in 1842 a writer of the time remarks: "All the banks¹ of Illinois have ceased to be. Their history is brief; their story is instructive; and the lesson taught will long be remembered."² This statement could have been applied with equal force to a number of southern and western states whose banks had failed under similar circumstances. In fact, the state bank of Indiana was the only conspicuous success among the projects undertaken or fostered by a state.³ For nine years after the failure of the Illinois banks, the Indiana bank currency furnished that part of the circulating medium which was considered both sound and lawful. A considerable amount of paper from other states, especially Michigan, was of unquestionable legality but of very doubtful soundness; while the issues of the Wisconsin Marine and Fire Insurance Company and other similar institutions made up in soundness what they lacked in legality.⁴

The presence of such an assortment of money of all degrees of goodness made it necessary for persons handling it in business houses to be supplied with "bank note reporters," "counterfeit detectors" and other similar publications, while the general public relied upon the money tables published in the newspapers.⁵

In so far as the banking functions other than note issue were concerned, they were performed by the private banking firms which had sprung up in all the principal

¹This refers to the regularly incorporated banks of issue. There were a number of private banking firms in the state.

²Brown, *History of Illinois*, 428.

³White, *Money and Banking*, 333.

⁴*Chicago Democrat*, January 15, 1845; *Bankers' Magazine*, iii, 724.

⁵*Niles Register*, lxviii, 272.

towns. These establishments were subject to no supervision by the state and whenever the absence of competitors permitted it, charged exorbitant rates of interest—the customary rate paid by a central Illinois cattle grower, for example, being twenty-four per cent.⁶ Those portions of the state adjacent to Chicago, St. Louis or Vincennes were more fortunate, however, and secured accommodations at reasonable rates, but at best the situation in the state was satisfactory neither to the bankers nor the public. Deposit banking was practiced by an inconsequential minority, hence the private bankers, under the necessity of paying out currency to borrowers, either violated the law by issuing their own paper or confined themselves to lending the notes of other banks, while the public was subjected to a constant risk in using a conglomeration of bank bills of uncertain value. In the campaign of 1846 two radically different remedies, both involving changes in the state constitution, were proposed by the two political parties. The Whigs favored the adoption of a general banking law under which banks of issue could be chartered which would provide the people of the state with a plentiful supply of safe currency. The Democrats, on the other hand, contended that in view of the unhappy experiences of the past both banks and bank paper should be forever banished from the state. They argued that the ideal monetary situation, namely, the exclusive use of specie, could never be brought about so long as paper money was allowed to circulate.⁷ In his campaign speeches, Mr. Killpatrick, the Whig candidate for governor, took the position that it was a great injustice to the business of the state that Illinois should be the only state in the Union without banks of issue. He pointed out to the voters the economic ills growing out of the use of foreign bank notes, the chief of which was that the people of Illinois were bearing the loss attendant upon the use of such paper without receiving accommodation at the banks which issued it. As for the establishment of an exclusive specie system of money, Mr. Killpatrick argued

⁶Prince and Burnham, *History of McLean County*, ii, 760.

⁷Alton Telegraph, January 24, 1846.

that no law ever enacted could prevent the circulation of bank notes to the exclusion of specie.⁸ The Democrats nominated Augustus C. French, an anti-bank man, on a platform which declared that the "resuscitation or recharter of any of the old banks . . . would be disastrous to the best interests of the people of Illinois" and that "the creation of any new bank in Illinois, either as a state bank or in any other form is uncalled for by the people."⁹

The Democratic party throughout the campaign took advantage of the popular prejudice against all corporations. The average Illinoisian looked upon the act of incorporation as a mere "loophole for knavery" which permitted the incorporators to do under its protection things which they could not do as private individuals. He believed that the incorporation of a bank of issue enabled the incorporators without money or credit of their own to reap a fortune from the resources of their patrons.¹⁰ Mr. French and a Democratic legislature were chosen at the November election and all hope of a general banking act seemed to have disappeared. A new field of operation, however, was soon opened for the friends of banks. The state had long outgrown the old constitution of 1818, but none of the efforts to provide a new one had thus far met with success. At length the proposition to hold a constitutional convention passed the legislature, was submitted to the people and received the support of the voters of both parties. The convention was in the hands of the Democrats, "nineteen-twentieths"¹¹ of whom were supposed to be opposed to all banks, and yet a pro-bank Democrat was made president of the convention and every effort to force the adoption of constitutional prohibition of banks met with defeat.¹²

⁸*Alton Telegraph*, July 4, 1846.

⁹*Chicago Democrat*, March 10, 1846.

¹⁰*Chicago Democrat*, October 28, 1845.

¹¹*Illinois State Register*, quoted by *Illinois State Journal*, November 9, 1857.

¹²*Alton Telegraph*, June 29, and July 9, 1847; *Niles' Register*, lxxii, 307; *Chicago Democrat*, June 29, 1847; *Jacksonville Prairie Argus*, quoted by *Alton Telegraph*, July 16, 1847.

The constitution was completed on the last day of August, 1847, and the following March was submitted to the people and adopted by a large majority. The following sections relating to banking were included in the article dealing with corporations:¹²

"No state bank shall hereafter be created, nor shall the state own or be liable for any stock in any corporation or joint stock association for banking purposes, to be hereafter created.

"The stockholders in every corporation, or joint stock association for banking purposes, issuing bank notes, or any kind of paper credits to circulate as money, shall be individually responsible,¹⁴ to the amount of their respective share or shares of stock in any such corporation or association, for all its debts and liabilities of every kind.

"No act of the general assembly, authorizing corporations or associations with banking powers,¹⁵ shall go into effect, or in manner be in force unless the same shall be submitted to the people at the general election next succeeding the passage of the same and be approved by a majority of all the votes cast at such election for and against such law.¹⁶

The Democratic party still refused to commit itself in favor of a banking law and at its convention in 1848 renominated Governor French on a platform which did "renewedly declare" the party's opposition to all banks and advocated the expulsion of paper money from the state.¹⁷

¹²Article X, Sections 3, 4 and 5; see *Journal of Constitutional Convention, 1847*, p. 564.

¹⁴To all the creditors of the bank. Decision of the supreme court of Illinois in *McCarthy vs. Lavasche*. *89 Illinois*, 270.

¹⁵The supreme court of Illinois in the case of *Anthony vs. Intern. Bank* (*93 Illinois*, 225) and also in *People vs. Lowenthal* (*93 Illinois*, 191) held that "banking powers" meant full banking powers and that an act of incorporation granting all the usual powers of a bank except that of note issue was not a banking act and need not be submitted to the voters.

¹⁶In the case of *Smith vs. Ryan* (*34 Illinois*, 364) it was held that minor amendments to a banking law already approved by the people need not be submitted.

¹⁷*Illinois State Journal*, May 4, 1858.

The Whigs still looked to a central bank as the true remedy for the currency ills of the nation, but as a measure of expediency they were willing to adopt any sound system of local banks so long as there was no prospect of securing a third United States Bank.

Governor French was re-elected and when the first legislature chosen under the new constitution assembled, January 1, 1848, he announced his intention of using his newly acquired veto power, if necessary, to prevent the adoption of a general banking act.¹⁸ Such action on his part did not become necessary, for the only bill introduced met an untimely end in the lower house.¹⁹

Now that the constitution permitted the chartering of banks, the business men of the state began a determined fight to secure favorable action from the next legislature. Just before the opening of the next session of that body, a convention was held in Chicago at which the representatives of the leading commercial and financial interests of the state drafted a memorial to the legislature and the governor urging them to abandon their attitude of hostility to banks and to provide the state with a system of banking adequate to its needs.²⁰ This time the appeal met with success as far as the legislature was concerned and a general banking system was passed for submission to the voters at the next general election.

The act was patterned after the free banking system of New York and provided that the auditor of public accounts should obtain a supply of circulating notes to be issued to persons complying with its provisions. Each of these notes was to be signed and numbered by the auditor and the number entered upon an official register. Any person or persons who desired to engage in the issue of notes was required to deposit with the auditor bonds issued (1) by the United States, (2) by any state which paid full interest or (3) by the state of Illinois. The deposit of the

¹⁸*Senate Journal*, 1849, pp. 11 ff.

¹⁹*House Journal*, 1849, pp. 58, 73.

²⁰Harper and Ravell, *Fifty Years of Banking in Chicago*, 83.

first two classes of bonds entitled the owner to receive from the auditor circulating notes to the full market value of the bonds but not to exceed their par value; but Illinois securities must be listed at twenty per cent less than their average market value in New York during the preceding six weeks. If any state failed to pay regularly six per cent interest on its bonds, the auditor was required to demand at least two dollars of its bonds for every dollar in notes issued to the depositor. The securities were all listed in triplicate, each list being signed by the auditor and the depositors of the bonds. One of the lists was kept in the state treasurer's office, one was retained by the auditor and the third was given to the person making the deposit.²¹

The privilege of forming a banking association was open to any number of persons but a minimum of fifty thousand dollars' worth of capital stock must be sold before beginning business. The certificate of incorporation granted to such associations specified the corporate name, place of business, amount of capital stock, the names and residence of stockholders and the number of shares held by each. This certificate entitled the holders to discount bills and notes, receive deposits, buy gold and silver coin and bills of exchange, lend money on real estate and personal security, and circulate their notes as money.²² If, however, a banking association failed to redeem its notes on demand, the auditor was required after giving notice for ten days in two New York City newspapers, to sell enough of the bonds deposited by the association to enable him to redeem the notes out of the proceeds of the sale, but in no case could the state of Illinois be held liable for the redemption of a bank's paper.²³ If any note holder chose to do so, he could cause a bank to be put into liquidation because of its failure to redeem its paper. The procedure prescribed was as follows: The note was to be "protested" by a notary public and the protest sent to the auditor who in turn was

²¹*Laws of Illinois, 1851*, p. 163, Sections 2 and 3.

²²*Ibid.*, Sections 4 and 9.

²³*Ibid.*, Section 14.

to notify the officers of the bank to pay the obligation in question at once. If they failed to do so, the auditor was to insert a notice in one Springfield paper and one paper in the place where the bank was located, to the effect that he would redeem and retire all the notes of the bank. The association was then to cease doing business except for the purpose of settling its affairs under the direction of a receiver appointed by the courts. All assets were to be applied (1) to the redemption of notes, (2) to the payment of all liabilities other than capital stock and (3) to reimburse the shareholders.²⁴ The stockholders were all to be held individually responsible for the debts of the bank to an amount equal to their respective holdings and the courts were authorized to issue execution against each stockholder in succession until the full amount of the judgment was obtained.²⁵ Any note upon which payment had been refused drew interest at the rate of twelve and one-half per cent until paid.²⁶ Notes were redeemable only at the place of business mentioned in the charter, and sufficient specie must be kept on hand for their redemption.²⁷ If the auditor or a group of shareholders whose holdings aggregated three thousand dollars desired an investigation of a bank's affairs, the circuit judge of the county in which the bank was located was required to institute such an investigation and to publish his findings together with his opinion as to the wisdom and honesty of the bank's management.²⁸

The general supervision of the new system was placed in the hands of three bank commissioners whose duties consisted in examining the affairs of every incorporated bank at least once a year and in inspecting the bonds on deposit with the auditor. In case there was a shrinkage in the value of any securities to such an extent that they no longer furnished adequate protection to the note holder, the bank was required to deposit additional bonds or withdraw a

²⁴*Laws of Illinois*, 1851, pp. 163 ff., Sections 14 and 18.

²⁵*Ibid.*, Section 28.

²⁶*Ibid.*, Section 18.

²⁷*Ibid.*, Section 19.

²⁸*Ibid.*, Section 25.

portion of its notes from circulation. As an additional safeguard, a quarterly statement was required from every incorporated bank, a copy of which must be published in a local newspaper.²⁹

Although the current rate of interest was ten per cent, the legislature restricted the banks to a rate of seven per cent, thereby compelling them to evade the law in order to secure the current rate.³⁰

The bill was sent to Governor French who returned it with a vigorous veto message in which he noted the following objections to the measure: (1) The bill should have provided that a definite minimum amount of gold and silver be kept on hand for the redemption of notes. (2) Instead of a mere double liability provision the measure should have required that every stockholder be liable to the full amount of his private property. (3) A bond was a mere evidence of indebtedness itself and was not a proper basis for the creation of further evidences of indebtedness. If a bond were worth its face value in gold then why not permit the banks to deposit the gold itself as security for their notes instead of resorting to a roundabout method which amounted to the same thing? On the other hand if the bonds were not as good as gold, then they did not provide adequate security for the notes. (4) A bank could incorporate under the provisions of this bill and instead of issuing notes based upon securities could act as the agent for some foreign "wild cat" enterprise. (5) The New York system upon which the Illinois banking law was modeled could not be pronounced a success since it had not yet been called upon to weather a severe crisis.³¹

The same influences, however, which had forced the original passage of the act again prevailed and it was repassed over the governor's veto.³² It was now necessary that the measure should receive the approval of the voters at a general election before it could become effective. The

²⁹*Laws of Illinois*, 1851, pp. 163 ff., Section 34.

³⁰*Ibid.*, Section 38.

³¹*Reports of Session* (H. of R.), 1851, p. 493.

³²*Chicago Daily Democrat*, February 22, 1851.

next general election would have occurred in November, 1852, but the legislature deprived all the county treasurers of their offices and provided that their successors should be elected in 1851. This change in the law made it possible to submit the measure a year earlier.³³ In spite of the light vote and the hostility of the Democratic newspapers, the law was adopted by a substantial majority.³⁴

Although the system provided was an improvement over the chaotic conditions of the past, there was ample room for abuses to creep in and the experience of subsequent years shows that unscrupulous persons made the most of these defects in the law. Banks could issue an unlimited amount of currency without reference to the needs of the community so long as the requisite amount of securities was deposited with the auditor. The place of issue named on the notes could be located in the most inaccessible portion of the state and the notes circulated as far as possible from it. Finally, there was no provision made for the actual payment of a dollar of the fifty thousand dollars' worth of capital stock prescribed as a minimum.

Notwithstanding the ease with which bonds could be obtained and circulating notes received there was not a single application filed with the auditor for several months after the passage of the act, a fact which led the editor of the *Chicago Democrat*, an opponent of the system, to boast that the law would soon become a dead letter.³⁵ The auditor had signified his willingness to issue bank notes to the full value of any six per cent bonds of the United States or the states of New York, Ohio, Kentucky and Virginia, none of which was quoted at less than 106 on the New York stock market. He also offered to receive Illinois securities at eighty per cent of their market price.³⁶ It was the stringency of these bond deposit provisions of the act

³³*Laws of Illinois, 1851*, p. 144.

³⁴*Memoirs of Gustave Koerner*, i, 564.

³⁵*Chicago Daily Democrat*, January 28, 1852.

³⁶*Thompson's Bank Note Reporter*, quoted in the *Chicago Tribune*, February 13, 1852.

which discouraged the formation of banking associations by even those bankers who had favored the passage of the general law.³⁷

During the course of the year 1852, however, seventeen banks were organized in various parts of the state and deposited bonds with a market value of \$1,649,100, in return for which they were permitted to receive \$1,142,544.83 in notes. Of this amount, \$1,129,622 was actually in circulation at the close of the year.³⁸ In the case of several of the new associations the business of a private firm was taken over and the lawful bank notes substituted for illegal issues.³⁹ On the other hand, some of the private bankers were so audacious as to issue "shin plasters" with which to buy bonds for the purpose of obtaining lawful currency from the auditor. In fact, several Chicago institutions after becoming incorporated are said to have prepared an issue of illegal notes exactly like their legal issue and to have paid out the two kinds indiscriminately.⁴⁰

The law abiding bankers were determined to rid the state of illegal currency, but met with little success in their efforts to discredit such universally acceptable paper as that of George Smith. Moreover, the law compelled them to redeem their notes at par while Smith continued to charge a one per cent premium for gold. Consequently, Smith's paper continued to circulate without interruption while the notes of the incorporated banks were constantly presented for redemption. At length the incorporated banking associations appealed to the courts (December, 1852) and secured indictments against six banks and George Smith's firm, the Wisconsin Marine and Fire Insurance Company.⁴¹ The cases dragged through the courts and were eventually abandoned but the efforts of the banking associations in another quarter were more successful.

³⁷Bross, *History of Chicago*, 42.

³⁸*Biennial Report of the Auditor of Public Accounts*, 1853, p. 24.

³⁹Andreas, *History of Chicago*, i, 534.

⁴⁰*Chicago Democrat*, May 2, 1852, September 3, 1852.

⁴¹*Ibid.*, December 25, 1852. This effort to stamp out illegal note issue was known as "the bank war."

When the legislature met in 1853 pressure was brought to bear both by the stock bankers and the auditor to secure an amendment to the banking act which would protect legitimate note issues.⁴² At the same time, however, Governor French in his farewell message pronounced the law a failure in that instead of ridding the state of "wild cat" currency it seemed to foster a spirit of law breaking. He did not, however, urge the repeal of the act, but recommended that the defects in the system be corrected.⁴³ In his inaugural address Governor Matteson joined with the auditor and the stock bankers in asking for legislation which would give the banking associations who tried to obey the law adequate protection against unauthorized note issues.⁴⁴

The legislature fell short of correcting all the defects in the original bank law, but the supplementary act of 1853 was passed which afforded some relief to legitimate banking. The following are the principal provisions of the act: No certificate of incorporation could be issued until at least \$50,000 in bonds had actually been placed in the auditor's hands and if the amount of deposit should fall below \$50,000 the bank *ipso facto* forfeited its charter. A heavy penalty was provided for the issue within the state of anything designed to pass as money, other than the bills authorized by the general banking law. Foreign notes were not allowed to be circulated unless they were of a denomination of five dollars or more and were issued by a regularly authorized specie paying bank of a state, territory or Canadian province.⁴⁵ The last named portion of the act was not taken seriously, although proceedings were instituted against offenders in various parts of the state. The high premium on silver coins after 1834 made it necessary to have a large amount of small bills to take their place and merchants and bankers continued to make use of foreign small notes in spite of the heavy penalty in-

⁴²*Reports of Session (Senate)*, 1853, p. 33.

⁴³*Senate Journal*, 1853, p. 14.

⁴⁴*Reports of Session (Senate)*, 1853, p. 23.

⁴⁵*Laws of Illinois*, 1853, p. 38.

volved. Moreover, when a note holder turned a small note from another state over to a bank for collection he was compelled to submit to a charge for this service so that most persons continued to use the notes and run the risk of prosecution.⁴⁶

As a result of the co-operation of the Board of Brokers of New York City with similar organizations in St. Louis and Chicago the provision of the act of 1853 against unauthorized domestic note issues was very effectively enforced. The Wisconsin Marine and Fire Insurance Company and similar institutions gave up the fight and withdrew their notes from circulation.⁴⁷ The currency of the stock banks came into more general use and for a brief time enjoyed a good reputation both at home and on Wall Street, where it was accepted at a discount of but three-fourths of one per cent.⁴⁸

At the time of the bank commissioners' report for May, 1854, thirty-one banks had been organized, with an authorized capital of seventeen millions and securities in the auditor's hands valued at \$2,650,987.62. Of this amount, \$1,844,500 worth consisted of the bonds of Virginia, Georgia, Missouri, Ohio, Wisconsin, Kentucky and Tennessee, all of which states paid six per cent interest regularly. On these bonds, notes were issued up to the full par value. The remainder of the deposits was made up of California bonds quoted at eighty cents on the dollar, on which the auditor issued notes at the rate of fifty cents on the dollar, and of Illinois securities of various kinds and values, on which notes were issued to the extent of eighty per cent of the New York stock market quotation. As far as evidences of state indebtedness could be considered a sufficient security for bank note circulation the issues of the Illinois banks seemed to be amply protected. In fact, with the rapid im-

⁴⁶*Chicago Democrat* (weekly), August 6, 1853; *Bankers Magazine*, ix, 102.

⁴⁷*Ibid.*, vii, 846.

⁴⁸*Thompson's Bank Note Reporter*, quoted by *Chicago Democrat* (weekly), April 2, 1853; *Clark's Counterfeit Detector*, quoted by *Bankers Magazine*, vii, 846; *New York Herald*, cited in *ibid.*, 739.

provement in the credit of the state there was no longer any reason for the discrimination against Illinois securities.

In lieu of the regular tax assessments the stock banks were assessed by the bank commissioners upon loans, discounts and bond deposits. When the commissioners called upon the banks for a statement as to the amount of these items, but nine of the banks made any return at all upon loans and discounts, the rest reporting merely the minimum of fifty thousand dollars in bonds required for incorporation. This singular state of affairs was due to the fact that the latter banks as such were not doing a loan and discount business at all. They were incorporated in order to secure the right to issue notes and then loaned the entire issue as private brokers and not as banking associations. In this way the seven per cent maximum interest rate could be exceeded and the tax upon loans and discounts evaded. In fact, a sort of an endless chain could be started by first obtaining bonds, next, procuring notes with them, next, obtaining more bonds with the notes, and so on as long as the association's ability to keep its notes in circulation permitted the process to continue. That this practice, however, did not as yet prevail to any considerable degree is evidenced by the fact that but few of the banks had deposited more than the minimum amount of securities.⁴⁹

The commissioners reported that the notes of foreign banks continued to furnish almost seventy per cent of the entire volume of paper in circulation in Illinois, in spite of the increased issues of the stock banks. This situation they accounted for in two ways: (1) Some Illinois bankers had put their paper into circulation outside of the state in order to postpone the necessity of redeeming it; (2) The amount of notes which the stock banks found it profitable to issue fell far short of the total demand for money.⁵⁰

Notwithstanding the ease with which a banking association could be formed, the efficient supervision of the aud-

⁴⁹Report of Bank Commissioners, in *Bankers Magazine*, ix, 102 ff.

⁵⁰*Ibid.*

itor in connection with the character of securities offered limited the number of applications for charters and inspired public confidence in the system. During the summer of 1854, however, the stock banks received their first shock, which was caused by a panic of short duration but characterized as the worst since 1837. The trouble was precipitated by a too heavy drain upon the money market due to extensive railroad construction in the Middle West. The crisis spread to the stock market, with the result that Virginia and Missouri bonds, which formed the larger part of the securities deposited by the Illinois banks, fell to ninety-five and ninety-three cents on the dollar, respectively. Suddenly a feeling of distrust seized the holders of Illinois currency and as a result large amounts of it were presented for redemption. The banks were wholly unprepared to meet their obligations and a number were compelled to suspend specie payments.⁵¹ The bank commissioners sought to allay the feeling against the stock bank notes by assuring the note holders that every bill was amply secured and that no one need sustain any loss. The process of waiting for the auditor to dispose of securities in New York and then call in the bills for redemption was too severe a tax upon the patience and comprehension of many persons, who disposed of their notes to brokers at a heavy discount.⁵²

In their report for January, 1855, the bank commissioners indicated to the legislature the necessity of eliminating at least two weak points in the general banking law: (1) The abolition of the seven per cent maximum interest rate, so that the banks would be induced to carry on their business in a regular and legal manner; (2) The requirement that a definite minimum amount of specie be kept on hand for purposes of note redemption.⁵³ The legislature, however, made but one slight change in the banking law of 1851 and that had to do with facilitating the retirement of the

⁵¹*Bankers Magazine*, ix, 493.

⁵²*Ibid.*

⁵³Report of Bank Commissioners, in *Bankers Magazine*, ix, 751.

notes of banks in liquidation. Any association which was about to retire its notes and wind up its affairs was required to certify this fact to the auditor. It was then entitled to receive from him a proper proportion of its securities in return for every \$1000 package of notes forwarded to him. If the association desired to go out of business before all its notes were redeemed it must deposit with the auditor sufficient specie to cover all the outstanding issue.⁵⁴

The auditor's report for the biennium ending November 30, 1854, showed that the banks had made a fairly good recovery from the effects of the panic. Three of them had closed their doors permanently, while five of the remaining thirty-two institutions were still in a state of suspension but had not yet been forced into liquidation. The total circulation then outstanding amounted to \$2,649,341, as security for which there were on deposit state bonds valued at \$3,170,529.55.

The five banks which had not yet resumed specie payments were notified that if they did not do so within sixteen days after the passage of the supplementary act of 1855 their portion of the securities on deposit would be sold by the auditor and their notes redeemed at his office. They were unable to comply with the notice and were compelled to close their doors.⁵⁵

The number of banks and the amount of notes outstanding continued to increase until in 1856 there was a total of \$6,480,873 outstanding, an increase of fifty per cent over 1854.⁵⁶ In spite of this fact, the Illinois stock bank notes formed the minor part of the circulating medium of the state. As an illustration of the varied character of the money in use in Illinois in 1855-56, Andreas cites the case of a conductor on the Chicago, Burlington and Quincy Railroad who on collecting \$203 from his passengers received the notes of twenty-three different banks. Of this amount, all but \$21 was the issue of banks outside of

⁵⁴*Laws of Illinois, 1855*, p. 32.

⁵⁵*Bankers Magazine*, ix, 822.

⁵⁶*Reports of Session (Senate)*, 1857, p. 139.

Illinois, \$115, or more than half, being the notes of Georgia banks.⁵⁷

The predominance of Georgia paper was not a mere accident, but was due to the fact that several banks in that state were owned by citizens of Chicago. After the passage of the act of 1853, and the successful campaign against illegal note issue, George Smith had opened two banks in Georgia for the sole purpose of furnishing notes for circulation in the territory tributary to Chicago, unhampered by bond deposit restrictions.⁵⁸ In like manner Preston and Company of Chicago issued from their office in that city the notes of their bank at Dalton, Georgia. Both the Smith and the Preston notes were in great demand, being convertible into eastern exchange at three-fourths of one per cent and into gold at one per cent upon being presented at the Chicago offices of the banks.⁵⁹ The stock bankers of Chicago did all in their power to drive the Georgia banks out of existence. At one time they kept up a continuous run for four months and presented a total of two million dollars for redemption. On another occasion Elihu B. Washburne was sent to Georgia with a large quantity of notes, for the purpose of driving the Smith banks out of business, but they succeeded in redeeming the whole amount presented.⁶⁰ Unfortunately there was much paper issued in the South which was not so easily redeemable. The fact that the Smith paper bore so good a reputation encouraged the issue of "wild cat" imitations of it. The business men of Chicago, being the worst sufferers from the notes, united in an appeal to the banks to stop handling Georgia paper of all kinds. Some of the banks agreed to co-operate in the matter but the rest were too heavily involved in one way or another to admit of their doing likewise.⁶¹ By 1858, however, the business of issuing and

⁵⁷Andreas, *History of Chicago*, i, 547.

⁵⁸Andreas gives a detailed account of George Smith's various activities; see i, 547, ii, 617 *et passim*.

⁵⁹*Chicago Daily Democratic Press*, January 6, 1856.

⁶⁰Andreas, *History of Chicago*, ii, 617.

⁶¹*Ibid.*, i, 546; *Bankers Magazine*, ix, 572.

lending notes had ceased to yield the large returns of former days and Smith retired his large Georgia issues and returned to Scotland.

Agencies similar to those maintained in Chicago were maintained by several Nebraska banks in Galesburg, Peoria, Macomb and other cities and villages, the difference being that the western currency was wholly unreliable. A favorite scheme of these frontier institutions was to persuade a number of persons in Illinois to take stock in the enterprise and thereby obtain the right to a certain amount of its bank notes. These notes the stockholder could use as he saw fit, but he became personally liable for their redemption. For a time the various stockholders, by agreeing to circulate one another's notes, succeeded in keeping them in circulation, but the crisis of 1857 put an end to "Brownville," "Platte Valley," "Nehama Valley" and other similar "wild cat" issues and left a number of hitherto prosperous Illinois farmers and merchants the wiser and poorer for the experience they had had.⁶²

In his report for November 30, 1856, the auditor stated that since the passage of the amendment of 1855 requiring banks to file notice of their intention to retire from business, nine banks had taken such action. Three of them had done so of their own free will and had retired their notes, or deposited with the auditor sufficient specie for their redemption. The rest had been forced to go out of business for failing to redeem their notes. The \$6,500,000 in outstanding notes was secured by bonds with a par value of \$7,645,590.24 and an estimated cash value of \$6,663,389. The system had been in operation for five years and up to that time the bonds in the auditor's possession had proved to be more than adequate for the redemption of the outstanding notes.⁶³ However, the new governor, Mr. Bissell, did not believe that this showing was any criterion as to the future of the stock banks. He granted that thus far the

⁶²Gale and Gale, *History of Knox County*, 678; Clarke, *History of McDonough County*, 161; Rice, *History of Peoria County*, i, 448.

⁶³Reports of Session (Senate), 1857, p. 50.

system had come up to all reasonable expectations but he expressed the fear lest in time of great financial distress, the holders of notes would suffer a heavy loss.⁶⁴

More than two-thirds of the notes of the Illinois banks were secured by Missouri state bonds and the fact that that state was suffering from an internal improvement mania similar to the one which seized the State of Illinois about twenty years before caused considerable alarm. The public debt of Missouri already exceeded nineteen millions and the legislature was contemplating an additional bond issue of several millions, an act which would inevitably bring about a marked decline in the value of the securities already outstanding.⁶⁵ Moreover, in addition to this threatened danger to the stock banking system, several of the influences which led to the commercial disasters of the year 1857 and 1858 were already in evidence. By February, 1857, five of the downstate banks were in so precarious a condition from over-expansion of loans and discounts that Chicago and St. Louis brokers flatly refused to accept their notes. A period of prosperity and expansion of business activities had led to excessive issues of notes and too little scrutiny of the security offered by borrowers.⁶⁶ Nearly all the stock banks hastened to retire a part of their note issue in order to fortify themselves against the approaching storm. As a result of their action, the outstanding circulation was reduced from \$6,480,000 on January 1, to \$5,500,000 on March 24, 1857.⁶⁷

The legislature, then in session, corrected some more of the defects in the banking law by enacting the amendment of February 14, 1857. It was specified that every incorporated banking house must do business solely in the name of the bank and at the place named on its notes and in the certificate of organization. The practice of locating banks in inaccessible spots was forbidden by a clause requiring that the office of a bank must be situated in a

⁶⁴*Reports of Session* (Senate), 1857, p. 20.

⁶⁵*Illinois State Journal*, January 19, 20, 1857.

⁶⁶*Bankers Magazine*, xi, 622, 827.

⁶⁷*Illinois State Journal*, March 25, 1857.

settlement containing not less than two hundred persons. This provision was aimed at such institutions as the Bank of Southern Illinois which had been established at Bolton, a town containing but one family and located in an out of the way part of Williamson County. Banks of this kind issued their notes in more populous parts of the state with the assurance that few persons would ever take the pains to present them at the bank for redemption.⁶⁸ The act also definitely prohibited the practice of "wearing out" persons presenting notes for redemption. Some banks in order to discourage the return of their notes in any considerable quantity compelled the note holder to present his bills one at a time and received payment in small change. Thereafter, if a person presenting a note for redemption were accorded such treatment, he could have the notes "protested" by a notary and mail it to the auditor who was required to place the bank in liquidation if it refused to make full payment to the noteholder within ten days. The practice of starting a stock bank by merely borrowing the requisite amount of securities and paying for them with the notes received in exchange for them was brought to an end by a provision that no more charters were to be granted until the auditor had been convinced that there had been paid into the bank a bona fide cash capital of fifty thousand dollars. As an encouragement to legitimate banking the legal rate of interest that might be charged by stock banks was increased from seven to ten per cent. Finally, the amendment put the bonds of Illinois and those of other states which paid six per cent interest regularly upon the same footing. Thereafter notes would be issued up to ninety per cent of the actual market value of any stock placed on deposit. This provision, while it increased materially the margin of security behind the notes of banks depositing the bonds of other states, at the same time removed the unreasonable discrimination which had existed against the securities of Illinois.⁶⁹

⁶⁸*Cairo Gazette*, quoted in *Illinois State Journal*, December 24, 1857.

⁶⁹*Laws of Illinois*, 1857, p. 23.

At the same session of the legislature an act was passed for the purpose of facilitating the settlement of affairs of defunct banks. Thereafter, if the note holders and other creditors of an insolvent bank did not present their claims within three years the bank was released from further obligation.⁷⁰

Salutary as the amendments to the banking law were, they were of no avail in warding off the panic which spread westward in the spring and summer of 1857. The period of six years during which the stock banking system had been in operation had been one of remarkable development for the State of Illinois. Taxable wealth had increased almost three fold; a number of important railways had been constructed, money was plentiful and land values were highly inflated. The reaction had now set in in earnest and the Chicago bankers tried to prevent a collapse of the banking system by agreeing to receive the notes of Illinois banks at par even though during the period from September, 1857, to March, 1858, the price of eastern exchange in terms of Illinois paper was never less than two per cent. In fact, in October, 1857, it reached a maximum of ten per cent.⁷¹

As the situation in the New York stock market became more acute, state bonds began to decline with such rapidity that the Illinois auditor was compelled on May 8, 1857, to call upon practically every bank for additional securities amounting to from two to six per cent of their capital.⁷² On July 5, the bank commissioners announced that there was no need for alarm since the notes in circulation amounting to \$5,535,690 were secured by over six million dollars worth of bonds, and all but two of the banks had complied with the request for more securities. One of the two delinquents, the People's Bank of Carmi, had \$127,500 worth of bonds with which to redeem \$110,300, but the note holders of the Stock Security Bank of Danville were not so fortunate, its securities having depreciated so

⁷⁰*Laws of Illinois, 1857*, p. 220.

⁷¹*Chicago Tribune*, January 1, 1861.

⁷²*Illinois State Journal*, May 9, June 25, 1857; *Reports of Session, 1859*, p. 193.

rapidly that the holders of its notes received but eighty-eight and a fourth cents on the dollar. This was the first instance in the history of the stock bank system of Illinois where the proceeds from the sale of bonds on deposit had not been adequate to reimburse the holders of notes, dollar for dollar.⁷³

The value of securities continuing to decline, the commissioners called upon twenty-seven banks for still further bond deposits to be made within the next ninety days. This action evoked a vigorous protest on the part of bankers and merchants and pressure was brought to bear upon the commission to secure an extension of time, but the members by a vote of two to one decided to adhere to the terms of the original bill. At the expiration of the ninety day period, all but three of the banks had reduced their circulation within the legal limit or had deposited a sufficient amount of additional securities. The bonds of the three delinquent institutions were promptly sold and a sufficient amount of specie obtained for them to enable the auditor to redeem the outstanding notes in full.⁷⁴ Had the rest of the banks failed to readjust their bond deposits or circulation, the auditor would have been compelled to dump upon the market at a most inopportune time over four and a half millions in securities, \$2,738,000 worth of which was issued by the State of Missouri whose credit was now almost ruined. In addition to voting extravagant loans the Missouri legislature now threatened to adjourn without providing for the interest payment on the enormous state debt, a proceeding which would have sealed the doom of the Illinois banking system. Fortunately, the threat was not carried out and Missouri bonds, for the time being, ceased their rapid decline in value.⁷⁵

Meanwhile the merchants of St. Louis became alarmed at the frequent and extensive demands made upon the Illinois banks for additional securities and voted to reject all the Illinois currency offered at their counters. Since a large part of the state was tributary to that city the

⁷³*Reports of Session, 1859*, p. 193; *Bankers Magazine*, xii, 239.

⁷⁴*Reports of Session, 1857*, p. 193.

⁷⁵*State Journal*, October 12, 1857; November 19, 1857.

effect of such action was quite as serious as if it had been taken by a group of Illinois merchants. One of the bank commissioners hastened to St. Louis and explained to a gathering of business men the character of the Illinois system and the exact condition of the banks at that time. This action, together with the influence of the more conservative newspapers of St. Louis brought a restoration of confidence and in a few days the paper of Illinois banks was again accepted by the merchants and bankers of that city.⁷⁶ The latter agreed to furnish specie for Illinois currency at the rate of ninety to ninety-five cents on the dollar. During the few days when Illinois paper was discredited, St. Louis "note shavers" reaped a harvest by buying up the notes from the public at from ten to fifteen per cent discount.⁷⁷

By January 1, 1858, the Illinois banks had made a fairly complete recovery from the crisis. Only a small number of them had been compelled to go into liquidation, although the failures in other lines of business, especially in Chicago, had been very extensive. In that city business was for a time completely paralyzed, speculators were ruined and the progress of the city retarded for two years. The rest of the state had not been so seriously affected by the crisis, there being but 199 failures out of 11,459 business enterprises, whereas in Chicago 117 out of 1,350 establishments had failed.⁷⁸ By April, 1858, eastern exchange could be had for one and one-half per cent premium and the protesting of Illinois currency had fallen off materially. Everything pointed to a rapid return to normal conditions.⁷⁹

Unfortunately the adverse weather conditions of the summer of 1858 left the Illinois farmer with a short grain crop of most inferior quality.⁸⁰ As a result there ensued

⁷⁶*St. Louis Democrat*, quoted by *Illinois State Journal*, October 21, 1857.

⁷⁷*St. Louis Intelligencer*, October 23, 1857, quoted by *ibid*. *St. Louis Democrat*, November 2, 1857, quoted by *ibid*. *Illinois State Journal*, October 21, November 9, 1857.

⁷⁸*Bankers Magazine*, xii, 681.

⁷⁹*Illinois State Journal*, April 27, 1858.

⁸⁰*Chicago Tribune*, January 1, 1861.

a depression in the down state portion of Illinois more severe than that of the year before. The banks, however, were doing business on a much more conservative basis and were not seriously affected; in fact, after two years of hard times, only six of the fifty-four banks had gone out of existence. All these institutions, with the exception of the Danville bank, had redeemed their notes without loss to the holders.⁸¹

In the report of the secretary of the treasury of the United States on the state of the finances for the year ending June 30, 1860,⁸² Illinois was at the bottom of the list of states in the amount of specie held by her banks in proportion to outstanding circulation. The \$269,585 reported by Illinois banks amounted to but 4.25 per cent of their note issue, whereas the average for the entire country was 23.08 per cent. In reviewing the banking situation as judged by the data in the secretary's report, Mr. W. M. Gouge said of Illinois:⁸³ "In that state, debt is piled upon debt. Funded debt forms the capital of banks and floating debt the currency. . . . A traveler relates that the redemption of notes with specie is little more than nominal. But the people having confidence in their 'ultimate security' as founded on state stock pass them freely."

The report of the bank commissioners in January, 1859, took a different view of the situation than Mr. Gouge had done. They were of the opinion that a system which had withstood the test of two successive years of financial depression should receive the stamp of approval from the public. In fact, the commissioners were convinced that the banks of the state "enjoy today a larger share of public confidence than at any former period." The recent experience with the bonds of Missouri and other states whose credit had been badly shaken during the panic led the commissioners to recommend that Illinois bonds be given the preference over those of other states. They also asked that they be given authority to prosecute offenders against

⁸¹*Reports of Session, 1859*, p. 193.

⁸²U. S., 36 Cong., 1 Sess., Senate, Ex. Doc., no. 3, 368.

⁸³*Bankers Magazine*, xiv, 7.

the foreign small note law, in view of the fact that prosecuting attorneys did not take the act seriously.⁸⁴

Governor Bissell in his message pronounced the banking system "in the main satisfactory" and cited the fact that but six banks out of fifty-four had failed, as proof of his statement. He recommended no changes in the banking act, save that the banks be compelled to substitute new bills for the mass of filthy and almost unrecognizable paper which they continued to circulate. He did, however, express a wish that the legislature could prevent citizens of other states from "depreciating" Illinois paper. As it was, a traveler from Illinois was compelled to submit to a discount of his bank notes as soon as he crossed the line into another state.⁸⁵

A considerable minority of the members of the legislature favored a bill which provided for the establishment of "specie banks," entirely independent of the existing system, their idea being that in addition to banks of issue there should be state banks which made a specialty of furnishing eastern exchange at reasonable rates. Most of the members, however, were of the opinion that the existing banking system had acquitted itself so well that it should be left as it was, so no banking measures were passed during the 1859 session. Had the members followed the recommendation of the commissioners in regard to giving Illinois bonds the preference over those of other states, the break down of the banking system two years later would undoubtedly have been prevented. Illinois was not only meeting the interest on her indebtedness promptly but had reduced her outstanding obligations to eleven millions. Moreover, the constitution of 1848 forbade the increase of the state debt in time of peace unless such action were first approved by a majority of the voters at a general election.⁸⁶ On the other hand, a large part of the securities purchased by newly formed associations were those of the State of Missouri, whose debt already exceeded twenty-five millions, although she had a population of less than a million and

⁸⁴*Reports of Session, 1859*, p. 193.

⁸⁵*Senate Journal, 1859*, p. 23.

⁸⁶Article iii, Section 37.

was far behind Illinois in the extent of material progress made.⁸⁷ The general sentiment throughout Illinois seems to have been that the banking system was as satisfactory as it could be made and that the general assembly should let well enough alone.⁸⁸

The year 1859 witnessed a recovery from the hard times of the preceding two years, but one marked by caution. Legitimate enterprises in Chicago were able to obtain plenty of eastern capital at ten per cent, but only the best unencumbered property was accepted as security.⁸⁹ However, neither Chicago nor the rest of the state could be said to be prosperous, although they had learned the much needed lesson that "patience, prudence and economy are the most trustworthy roads to fortune."⁹⁰ The grain crop of 1859 was of good quality and brought a good price but it was not a very large one, hence the condition of the eastern exchange market was little better than it had been in 1857 and 1858.⁹¹ The year 1860, on the other hand, was the most prosperous one in the history of Illinois agriculture up to that time. The crops of that year were unparalleled in size and excellence, while the extraordinary demands on the part of European countries kept up prices. Eastern exchange soon returned to normal and bank currency was in great demand for crop moving.⁹² As a result the issues of the existing banks were expanded and many new associations were formed.⁹³

The natural expansion of the currency, however, was interfered with by another slump in the value of the Missouri bonds which necessitated a call being made upon eighteen of the banks for the deposit of more securities or the retirement of a portion of their notes.⁹⁴ The banks succeeded in adjusting their issues to the amount of securi-

⁸⁷*Illinois State Journal*, January 17, 1859.

⁸⁸*Missouri Democrat*, February 5, 1859.

⁸⁹*Bankers Magazine*, xiii, 625.

⁹⁰*Ibid.*, xiv, 410.

⁹¹*Chicago Tribune*, January 1, 1861.

⁹²*Ibid.*

⁹³*Reports of Session (Senate)*, 1861, p. 331.

⁹⁴*Illinois State Journal*, February 20, 1860.

ties on deposit but a number of the down state institutions had practically suspended specie payment, for the Chicago banks were protesting down state issues at the rate of eighty to one hundred thousand dollars a month and sending them in to the auditor for redemption.⁹⁵ Many country bankers, in fact, purposely allowed their notes to go to protest in the belief that it was less expensive to sacrifice their securities than to keep in their vaults a large amount of specie.⁹⁶ To many of the down state bankers the custom of the large Chicago institutions of sending a messenger to the country banks with a large amount of bills for redemption was exceedingly annoying. In spite of the act of 1857 which forbade such a practice, the Reaper's Bank of Fairfield undertook to discourage the presentation of its notes by "tiring out" Chicago bank messengers. On one occasion, when a representative of Willard and Atkins of Chicago presented for redemption at the bank's counter several packages, each containing five or six hundred dollars worth of the bank's notes, the cashier proceeded to redeem the notes one by one with five and ten cent pieces, stopping frequently to attend to other duties. Finding at the close of the day's business that but one hundred and fifty dollars worth of notes had been redeemed, the messenger had the rest of the notes protested for non-payment and the auditor was called upon to place the bank in liquidation. The officers of the bank resorted to injunction proceedings and the case was ultimately decided by the Illinois supreme court. Here it was held that payment of notes "on demand" meant that the holder is entitled to present all his notes simultaneously and receive specie for them in a lump sum.⁹⁷

As the winter of 1860-61 approached and the political situation in the South became more acute, southern securities began to decline and the price of eastern exchange in terms of Illinois currency rose correspondingly.⁹⁸ The

⁹⁵*McElroy's Reporter*, April 10, 1860.

⁹⁶*Bankers Magazine*, xv, 411.

⁹⁷See *Reaper's Bank vs. Willard*, 24 *Illinois*, 433. *Bankers Magazine*, xiv, 487.

⁹⁸*Chicago Tribune*, January 1, 1861.

bank commissioners, upon examining the securities in the hands of the auditor, found it necessary to call upon twenty-two banks for additional deposits, the amounts in the different cases varying from \$2,062 to \$51,070. They were granted the usual forty days grace in which to make good the deficiency or retire a part of their circulation. The Chicago bankers, however, were too concerned over the prospects of civil war to be willing to await the action of the delinquent banks and immediately agreed to refuse to receive the notes of any of the banks under call until they had been restored to good standing. The period of grace would have expired January 1, 1861, but the commissioners, late in December, extended the time to March 20.⁹⁹ The holders of the notes of these banks made vigorous objection to the commissioners' action on the ground that the notes were being subjected to a discount of fifteen to twenty per cent, whereas if the banks were closed at once and their bonds sold, an average of ninety-two cents on the dollar would be realized. The commissioners, however, were of the opinion that any effort to sell a large number of bonds on the New York market would only result in a heavy loss to the note holders.¹⁰⁰ Furthermore, between November 20, the date of the original call, and December 20, the date when the extension of time was granted, the securities of nearly every state in the Union had depreciated to such an extent that out of justice to the twenty-two banks under call it would have been necessary to require nearly every bank in the state to deposit additional bonds.¹⁰¹

The beginning of the year 1861 marks so distinct a transition in the history of stock banks, that a review of the development of the system up to that time, and an analysis of its internal workings as revealed in the statements issued by the state officers will not be out of place at this point.

⁹⁹*Reports of Session (Senate), 1861*, p. 333; *Illinois State Journal*, November 20, 21, 1860.

¹⁰⁰*Reports of Session (Senate), 1861*, p. 333; *Illinois State Journal*, December 21, 22, 1860; *St. Louis Democrat*, December 8, 1860.

¹⁰¹*Reports of Session (Senate), 1861*, p. 333.

The system had been given a fair trial for nine years and the officers to whom the work of supervision had been entrusted had performed their duties with ability and honesty. The note issues had been so fully protected by state and federal bonds that out of fourteen banks which had gone into liquidation the securities of but one fell short of providing for the redemption in full of all the outstanding issue. And yet the system could not have been pronounced a successful one. In the first place, the notes were circulated with a fair degree of ease within the state, but they were subjected to a discount as soon as they were carried beyond its borders.¹⁰² In the next place, the legislature failed to make any discrimination in favor of Illinois securities and banking associations bought up at a bargain bonds of unstable value which failed utterly to afford the needed protection to note holders when the Civil War broke out.¹⁰³ Lastly, at no time during their existence had the banks kept on hand an adequate supply of specie for the redemption of their notes. Instead of facilitating the process of redemption, they sought to make it as difficult as possible. No system of note issue could be termed successful in which the holders of notes in the great majority of cases were compelled to resort to the cumbersome process of protest and sale of securities in order to exchange them for specie.¹⁰⁴

The following table¹⁰⁵ contains the aggregate statements of the ninety-four banks reporting their condition to the bank commissioners, October 1, 1860, and the balance sheets of (1) a large Chicago bank, (2) the largest down state bank, (3) one of the small group of conservative country banks, (4) one of the more numerous banking associations organized solely to obtain notes and lend them through some third party:

¹⁰²*Champaign Gazette*, November 28, 1860.

¹⁰³*Senate Journal*, 1863, p. 22.

¹⁰⁴*Bankers Magazine*, xiv, 7.

¹⁰⁵The data given in the table were obtained from *Reports of Session* (Senate), 1861, p. 376.

Item	RESOURCES	McLean County Bank Bloomington	E. I. Tinkham & Co.'s Bank McLeansboro
Total for 94 banks	Marine Bank of Chicago	State Bank Shawneetown	
Stocks deposited as security for notes	\$12,264,580.74	\$ 55,733.83	\$ 108,992.00
Real estate, etc.	116,551.00	11,500.00	
Notes of other banks.....	287,411.25	5,000.00	24,540.00
Due to the bank other than loans and discounts.....	1,950,244.39	49,600.00	12,205.29
Loans and discounts.....	540,876.28	26,795.00	101,645.82
Specie	302,905.26	567,458.14	3,094.33
Deposited with other banks.....	3,793,753.22	632,223.37	2,057.53
Expense account	19,459.76		49,787.00
Checks, drafts and other cash items	37,920.47		3,339.78
Surplus stocks and suspended debt	85,492.21		
Profit and loss.....	37,791.26		948.08
Total	19,436,985.74	704,606.97	\$ 1,362,316.61
<hr/>			
LIABILITIES			
Capital stock	\$ 6,750,743.97	\$ 498,969.50	\$ 50,000.00
Debts other than deposits and notes	422,220.36	154,464.12	7,097.98
Deposits	807,793.82	19,378.35	62,334.06
Notes outstanding	11,010,837.00	31,795.00	49,997.00
Due other banks.....	64,200.72		108,779.00
Exchange, interest and expense ac- count	25,628.52		28,331.80
Surplus bonds	286,614.26		
Profit and loss.....	68,977.99		2,866.18
Total	58,080.61		

The aggregate statement for October 1, 1860, shows the condition of the banks when the stock system under the stimulus of prosperous times had attained its maximum growth. In addition to the ninety-four banks from which returns were received there were eighteen others in existence at this time. They evidently had not complied with the provision of the act calling for a quarterly statement of their condition. The fact that \$12,264,580.74 in securities had been deposited as a protection to but \$11,010,837 in notes furnished a safe margin against the ordinary fluctuations of the stock market. More than half of this amount of securities had been deposited since the amendment of 1857, hence the bank making the deposit received in notes but ninety per cent of the market value of its bonds.¹⁰⁶

Practically every item in the statement reveals the fact that but few of the banks were conducting a regular banking business. Only fourteen of them owned even enough real estate to provide a site for their place of business making a total amount of but \$116,551.40 invested in this way.¹⁰⁷ The item, "notes of other banks," represents the holdings of but thirty-two institutions out of the ninety-four, while but thirty-eight banks reported any indebtedness to other banks. Furthermore, but fourteen banks carried on a loan and discount business of their own, which accounts for the fact that but \$540,876.28 of the nineteen millions of resources was used in this manner.¹⁰⁸ On the other hand, nearly all the banks had large amounts on deposit with other banks, this item alone aggregating \$3,793,752.22. All these facts go to show that most of the stock banks were mere devices for obtaining a supply of paper money to use in connection with a private banking business where the restrictions placed upon an incorporated concern could be avoided. Closely related to the deposits in other banks is the \$1,950,244.39 due from banks and

¹⁰⁶*Reports of Session (Senate), 1859*, p. 206.

¹⁰⁷*Ibid.*, 1861, pp. 376 ff.

¹⁰⁸*Ibid.*

individuals, aside from loans and discounts. A large part of this amount probably can be attributed to the purchase of bills of exchange arising from the sale of produce.¹⁰⁹

The remainder of the banks' note issues were invested in bonds which served as security for a further note issue and so on as long as the necessity of redeeming the notes in specie could be avoided. That most of the banks had no intention of redeeming their notes in specie can be seen from the fact that but sixty-one of them kept any specie on hand at all and half of these had a thousand dollars or less. The \$302,905.26 on hand at the time of the report was less than three per cent of the outstanding circulation,¹¹⁰ not to mention the other demand obligations. The minor items in the aggregate statement column are either self explanatory or furnish little indication as to their exact character.¹¹¹

In the second column is represented a peculiar balance sheet, that of the Marine Bank of Chicago. It will be noted that the association had invested but \$55,753.83 of its half a million dollars of paid up capital in stocks and on this security had issued but \$31,795 in notes. One could conclude from this much of the bank's statement that it was carrying on a discount and deposit business but a glance at the other items shows that this is not the case. Deposits aggregate but \$19,378.35 and no loans and discounts whatever were made. By far the largest part of the bank's funds had been loaned through another bank or banks, but no use was made of the "endless chain" device of securing a large supply of bank notes by using the existing issue for the purchase of more bonds. The Chicago banks found other lines of banking more profitable than note issue under a restrictive law.¹¹²

¹⁰⁹*Reports of Session (Senate), 1861*, pp. 376 ff.

¹¹⁰The banks of Indiana, at the close of 1860, had \$2,296,648 in specie and but \$5,755,201 in notes; and those of Ohio \$2,377,466 in specie and \$8,143,611 in notes. *U. S. Comptroller of the Currency, Report, 1876*, p. 116.

¹¹¹*Reports of Session (Senate), 1861*, pp. 376 ff.

¹¹²Andreas, *History of Chicago*, ii, 617.

In marked contrast with the Marine Bank is the largest of all the stock banks and the successor of the old Bank of Illinois, the State Bank of Shawneetown. In spite of its high sounding name, however, it had no official connection with the state. It had invested all its capital in bonds, obtained notes for them and with these had obtained more bonds as security for more notes. The \$11,500 charged to real estate is of interest in that it probably represents the "present worth" of the \$80,000 structure erected by the old Bank of Illinois. It will be seen that practically all the rest of the bank's funds were loaned out through other agencies or invested in bonds.

The McLean County Bank is one of the very few stock banks which conducted their affairs about as a small bank issue would do at the present time. The capital stock had been invested in securities and the full amount of notes issued thereon, but in comparison with other stock banks, a large amount of discount business had been carried on and an unusual amount of deposits received. The specie reserve while small was much larger than the average. This bank was one of the few to survive the outbreak of the rebellion.¹¹³

The bank maintained by Tinkham and Company, private bankers of Chicago, affords an example of the type of institution which was established in an out of the way place for the sole purpose of obtaining a supply of currency. The incorporators of the enterprise made no effort to carry on a banking business at the place mentioned in the charter and on the notes, but circulated their currency in Chicago or some other distant point where there was little chance of anyone taking the trouble to find the bank's counter. Tinkham and Company had evidently used about \$50,000 of the note issue in connection with their private banking business and had invested the rest in bonds.

The table as a whole shows that the stock bank system, instead of providing the state with adequate and dependable

¹¹³*Reports of Session (Senate), 1863, i, 215.*

facilities for all lines of banking, had created a machine for the issue of paper money.

As the secession movement advanced and the prospect of war became more of a certainty, it was generally agreed that some radical steps must be taken to bolster up the currency system of Illinois. Governor Yates in his inaugural message joined with the bank commissioners in recommending: (1) the limitation of the choice of securities to the bonds of Illinois and the United States, (2) that one or more cities of the state should be selected as central redemption points where, for a small fee, the notes of a stock bank could be exchanged for specie.¹¹⁴ The Chicago bankers were especially desirous of securing the adoption of the latter recommendation and a convention of bank presidents and cashiers was called by the bankers of that city to formulate plans for a redemption system which would obviate the necessity of sending messengers to remote parts of the state to the counters of country banks. The Chicago banks urged each country association to retire one-tenth of its circulation and to open a redemption agency at Springfield or Chicago. As compensation to the down state banks for retiring a portion of their notes and selling the securities back of them at such an unfavorable time, the Chicago banks agreed to pay an extra premium of five per cent for all New York sight exchange delivered to them by country banks during the ten days following the making of the agreement. As a hint concerning what would follow upon an unfavorable response to the proposition, the Chicago bankers mentioned the fact that they had on hand large amounts of the notes of down state banks which were likely to be presented for redemption at any time. When the convention of presidents and cashiers met, January, 1861, with representatives present from thirty-seven banks, a system of mutual redemption was formulated, but the banks of themselves could accomplish little as the existence

¹¹⁴*Reports of Session (Senate), 1861, pp. 21, 335.*

of all except a few of them was threatened by the probable secession of the southern states.¹¹⁵

The question of banking reform was therefore one with which the legislature alone was competent to deal and it responded to the appeal of the Chicago bankers by enacting an amendment, February 14, 1861, entitled "An act to amend the general banking law to afford greater security to the public." First of all, it was provided that thereafter all securities deposited with the auditor must be those of Illinois or the United States. In order to encourage the existing banks to dispose of their southern bonds, the act provided that if securities which had been below par for two years were exchanged for securities which had been at par for two years, notes should be issued on the latter up to their full face value, until September, 1861. After that date, the usual ten per cent margin between notes and securities should be required. Any bank whose circulation exceeded the lawful limit was given sixty days in which to make good the deficiency in securities. If at the end of that time there was still a deficiency, the auditor was required to place the bank in liquidation. Before the passage of this act the auditor had been required to sell the bonds of banks whose notes had been protested and to pay the note holders in specie out of the proceeds. The present act provided that the auditor should redeem the notes directly with bonds and let the note holder dispose of the bonds as best he could.

The act further provided for the adoption of a central redemption system. All banks organized thereafter were required to maintain an agency in Springfield or Chicago, while the older banks were induced to do so by being offered a special thirty day exemption from being placed in liquidation in case their notes were protested. Furthermore, persons protesting the notes of any existing bank which should establish an agency were entitled to but six per cent interest instead of the usual twelve per cent which had been paid to holders of protested notes. The agency thus

¹¹⁵ *Illinois State Journal*, December 19, 1860, January 17, 1861; *Bankers Magazine*, xiv, 581; *Chicago Tribune*, January 1, 1861.

provided for could be either a separate or joint affair and was permitted to charge three-fourths of one per cent commission during the year 1861 and after that not more than one-half of one per cent.

In order to keep the public more closely in touch with the banking situation, the governor and commissioners were required to issue quarterly statements of the value of the securities then on deposit. Every six months, the banks were required to give to the public a complete list of their stockholders and the amount of their respective holdings. As a check upon the excessive issue of notes, it was specified that no bank could thereafter issue an amount greater than three times the actual paid up capital. The minimum capital requirement was reduced to twenty-five thousand dollars in actual cash. Thereafter banks could not be established in any town containing less than one thousand inhabitants, an exception being made of county seats. The charters of all banks having no bona fide officers or place of doing business were declared forfeited and lending through a third party was punishable by forfeiture of all interest due. Whether a bank chose to issue notes or not, it was required to keep a minimum bond deposit of \$5,000 in the auditor's office.¹¹⁶

In addition to placing the existing system upon a firmer basis so far as could be done without infringing upon the rights of banks already in operation, the legislature provided for the establishment of a great central banking system entirely distinct from the stock banks. The state bank of Indiana had met with such success and its paper bore so high a reputation that the Illinois legislature believed that by providing a similar institution the currency ills of the state would be at an end. The new institution was to be called the Union Bank of Illinois and was to continue its existence for twenty-five years after its charter had been approved at the next general election. Three months after the ratification of the act by the people, the bank commissioners were to divide the state into not more

¹¹⁶*Laws of Illinois, 1861, pp. 39 ff.*

than thirty districts, in each of which a branch bank was to be located. The capital was not to exceed ten millions and every branch was to be held responsible for the debts of the others. The maximum rate of interest was fixed at seven per cent. The system was referred to as the "specie system" of banking as contrasted with the "stock system." The only safeguard provided for demand notes was that they could not be issued in excess of twice the amount of paid up capital.¹¹⁷

At the next general election in November, 1862, the bill was submitted to the people and rejected by a large vote.¹¹⁸ The reasons assigned for its unpopularity were: (1) It was expected that the greenbacks would furnish an ample supply of good paper money. (2) A constitutional convention was about to meet and the general opinion was that the solution of the banking question should be left to it.¹¹⁹ (3) The collapse of the stock banking system, about to be described, occurred between the passage of the act and the date of its submission to the people. As a consequence, a strong feeling against banks was engendered.¹²⁰

It will be remembered that the bank commissioners in November, 1860, called upon twenty-two of the one hundred and twelve stock banks in the state for more securities. When the final date on which the deficiency could be made good arrived (March 20), seventeen of the banks with an aggregate circulation of \$2,726,795 were still unable to comply with the call and were placed in liquidation.

Meanwhile the southern states had one by one seceded from the Union and their bonds in the hands of the Illinois auditor to the amount of \$9,467,500 had rapidly declined in value. Missouri bonds, which were quoted at 67 cents on the dollar on April 1, by April 17 had fallen to 51 cents and the prospect of a recovery daily grew less. The notes of thirty-two stock banks were refused by the Chicago bankers, and the paper of as many more banks was on very

¹¹⁷ *Laws of Illinois*, 1861, p. 53.

¹¹⁸ *Bankers Magazine*, xv, 539, 554.

¹¹⁹ *Champaign Gazette*, October 30, 1861.

¹²⁰ *Illinois State Journal*, June 26, 1861.

dangerous ground.¹²¹ Outside of Chicago, notes which were discredited in that city were accepted at fifty cents on the dollar, while the paper of other banks circulated about as usual. The down state business men protested that the strictness of the Chicago bankers was merely making a bad situation worse by hastening the ruin of the great majority of the country banks.¹²² The merchants of Chicago adopted a more liberal policy toward the stock banks. Believing that the war would be of short duration, they agreed to take at par all Illinois paper not already discredited by Chicago bankers,¹²³ but this arrangement became intolerable when New York exchange reached a premium of twenty per cent and threatened to go higher. When on May 15, Missouri stock had fallen to 35 cents on the dollar, Tennessee to 45 and Virginia to 43 and the collapse of the greater part of the stock banks was bound to follow, the Chicago merchants hastened to abrogate their agreement and to accept Illinois currency at what it would bring in New York exchange.¹²⁴

Everywhere the whole issue of stock notes began to be discredited. Merchants refused to give change in coin for a bank note and persons depositing Illinois notes at a bank were required to accept payment in the same from the bank.¹²⁵ The business men of Springfield voted to receive the notes of only thirty-six banks which had deposited northern state bonds with the auditor.¹²⁶ As a result of the scarcity of money a considerable amount of specie was forced out of hiding places and into circulation.¹²⁷

If the war had begun in the autumn of 1860 instead of in the spring of 1861, the farmers of the state would have been caught with an immense amount of rejected and depre-

¹²¹*Chicago Tribune*, April 17, 1861; *St. Louis Democrat*, April 3, 1861; *Champaign Gazette*, April 10, 1861.

¹²²*St. Louis Democrat*, April 3, 1861; *Missouri Republican*, quoted by *Illinois State Journal*, April 6, 1861.

¹²³*Chicago Tribune*, May 2, 1861.

¹²⁴*Ibid.*, May 16, 1861.

¹²⁵*Illinois State Journal*, May 16, 1861.

¹²⁶*Ibid.*, May 18, 1861.

¹²⁷*Ibid.*, May 20, 1861.

ciated currency on their hands; but as it was, the large city banks were the heaviest losers. At the next session of the legislature they demanded that they be reimbursed under the guise of a war measure, but they were unsuccessful.¹²⁸

The provision of the original banking act, which permitted the banks to deposit any state securities on which six per cent interest was regularly paid, had naturally led banking associations to purchase the less expensive southern securities. It was this fact that caused the almost complete collapse of the whole system of banking in Illinois. The securities of all the states except a few in the North and East had shrunk almost fifty per cent in value within six months and desperate efforts were made by conservative business men to eliminate all currency based upon depreciated bonds.¹²⁹ To this end a conference of down state bankers was held, June 4, 1861, at which representatives from Springfield, Jacksonville, Decatur, Alton, Danville, and Carbondale were present. The conference made up a list of fourteen banks, all of whose notes were protected by the bonds of northern states, and agreed to accept at par the notes of any bank on the list and to reject the paper of all other stock banks. This action reduced the amount of paper in good standing to \$1,076,737, whereas six months before over twelve millions was in circulation.¹³⁰ Much of the depreciated paper continued to be used, however, at what were known as merchants', bankers', and railroad rates. Lists of notes and their rating were published in the newspapers and posted in stores and railway stations for the guidance of note holders.¹³¹ The reduction in the amount of media of exchange caused no appreciable change in prices for the volume of business had diminished to such an extent that it could easily be transacted with the remaining notes of Illinois banks and those of Indiana and Ohio banks.¹³²

¹²⁸*Journal of Constitutional Convention, 1862*, February 6, 1862.

¹²⁹*Chicago Tribune*, May 23, 1861.

¹³⁰*Illinois State Journal*, June 5, 1861.

¹³¹See Chicago, Springfield and other local newspapers for lists.

¹³²*Chicago Tribune*, May 30, 1861.

In order to assist note holders in disposing of their notes, firms like Tinkham and Company and the Ridgely Bank in Springfield established agencies for the conversion of rejected notes into bonds and then into New York exchange. For a few weeks these firms along with scores of individual note holders, poured the notes into the office of the state auditor at the rate of \$100,000 a day; in fact, that official was compelled to close his office for a time until the accumulation of notes could be counted, cancelled and burned.¹³³

In the meantime, the bank commissioners were trying to secure additional bond deposits from a large part of the banks, but were meeting with no success. On May 24, twenty-three of these were added to the delinquent list. The remaining seventeen were left undisturbed because their notes were backed by bonds of northern states and those of the United States, the latter, however, being worth but eighty-five cents on the dollar. The banks were compelled to agree to establish central redemption agencies in return for their being exempted from call, the advantage to them of such exemption being that in case their notes depreciated greatly they could buy them up at a great discount and present them to the auditor for redemption in bonds, dollar for dollar. On the other hand, if their notes were under protest the note holder had a prior lien not only on all the bank's assets but also upon the stockholders up to an amount equal to their respective holdings.¹³⁴

The rapid disappearance of Illinois notes from the channels of trade placed business upon a specie basis and the few banks which remained paid out no more local currency at their counters. The notes of the small group of banks in good standing were accepted at the rate of ninety cents on the dollar, while all the rest were refused. Chicago had been rated as a "dear market" so long as business was transacted on a paper basis, but now the wholesale houses of this city were enabled to compete on equal terms with those of other cities.¹³⁵

¹³³Commissioners' report in *Illinois State Journal*, June 20, 1861.

¹³⁴*Ibid.*

¹³⁵*Bankers Magazine*, xv, 947.

A comparison of the auditor's report for October, 1861, with those of July and April of the same year shows the rapid progress made by that officer in retiring and destroying the stock bank notes sent in for redemption. On April 1, \$11,107,600 was outstanding. By July 1, this amount had been reduced to \$7,294,855 and by October 1, to \$3,507,686.¹³⁶ As the notes were presented to him, the auditor calculated the ratio which they bore to the total outstanding issue of the bank in question, and paid to the note holder the same proportion of that bank's securities. For instance, during the month of October, 1861, there were presented notes with a par value of \$279,089, but the holders received bonds worth only \$160,419.80, these amounts having the same relation to the total amount of the bank's notes and bonds respectively.

It is impossible to estimate the total loss incurred by bank creditors through the collapse of the stock banks in 1861 for the reason that many persons sold their bonds or notes to brokers at a great sacrifice, while others were in a position to hold their bonds until the credit of states like Missouri, for example, recovered from the effects of reckless finance and the depression which accompanied the war. If the rate at which the note holders were reimbursed by the auditor could be taken as a criterion, the loss could be placed at about forty-four per cent but, as has been shown, large numbers of persons submitted to a second heavy discount at the hands of brokers,¹³⁷ the amount of which it is not possible to estimate.

By the middle of November but \$1,766,000 worth of securities remained in the auditor's hands, \$1,221,000 of which were the bonds of Illinois. Two of the seventeen solvent banks had been called upon for additional securities, leaving but fifteen in unquestionable standing. The latter group had an outstanding circulation of but \$504,346, secured by \$600,000 worth of bonds, \$511,317 of them

¹³⁶Auditor's report, in *Illinois State Journal*, July 2, October 10, 1861.

¹³⁷*Illinois State Journal*, November 6, 1861; Message of Governor Yates, *Senate Journal*, 1863, p. 24, or *Reports of Session*, 1863, p. 110.

being various Illinois securities. On January 1, 1862, the auditor reported that the notes of but three of the fifteen banks were received at par, the rest being subjected to a discount of thirty to forty cents, although their securities were quite as ample and of as good standing. The reason for the discrimination lay in the fact that the three banks in question had lived up to their agreement and had established agencies in Chicago where their paper could be redeemed in specie at a cost of but three-fourths of one per cent. Thirty-six of the stock banks had been in the hands of receivers for some time. The auditor, on behalf of the note holders, was entitled to a prior lien upon the proceeds obtained from the sale of the assets of these banks, but in January, 1862, he reported that he had not yet received a dollar from this source. On that date, the auditor was still engaged in exchanging bonds for the notes of fifty-seven banks.¹³⁸

The legislature in 1859 had provided that a referendum be taken at the general election of 1860 on the question of calling a convention to frame a new constitution. The proposition received the sanction of the voters and the convention met in Springfield in January, 1862. The events of the preceding year had revived the old hostility toward banks to such a degree that an article was inserted in the new constitution prohibiting absolutely the incorporation of any institution with banking powers. Although the convention was not able to deprive the few remaining banks of their right to exist, it provided that they should at once restrict their issues to notes of not less than ten dollars in denomination. In 1864 the minimum was to be raised to twenty dollars, and in 1866 note issue was to cease entirely.

In their "address to the people" the members of the convention assigned the following reasons for their action: (1) The advocates of stock banking had led the public to believe that local bank paper was needed in addition to the

¹³⁸*Proceedings of Constitutional Convention, 1862, pp. 65, 85; Report of Auditor, in Bankers Magazine, xvi, 650; Chicago Board of Trade Reports, 1861, p. 63.*

existing supply of metallic money in the state, but the paper had merely driven out a like amount of specie. (2) The system had broken down completely and might as well be abolished. (3) Gold and silver, together with the new United States notes, would furnish a plentiful and dependable method of exchange. (4) Patriotic devotion to the cause of the Union demanded that all local bank paper be retired so as to give the United States a clear field for the circulation of its notes.¹³⁹ The article dealing with banks was submitted to the people separately and was received with less disfavor than was the main body of the constitution, the banking article being rejected by 3,801 votes and the whole constitution by over 16,000 votes.

In his report of July 1, 1862, the auditor stated that there were then seventeen banks in operation with a circulation of \$511,286 secured by Illinois and United States bonds to the amount of \$574,532. He was still engaged in exchanging the securities of defunct banks for their notes.¹⁴⁰ Within the next six months, five new banks were started under the general law as amended in February, 1861, and the circulation was thereby increased to \$566,133, as compared with \$12,320,694, the amount reported by the auditor to the preceding general assembly.¹⁴¹

The bank commissioners now made a last desperate effort to rid the state of foreign small notes. They issued notices to prosecuting attorneys to the effect that the law must not be regarded as a dead letter, and visited certain counties in order to secure evidence against violators. In Christian County, for example, they secured the indictment of seventeen persons for passing the one,

¹³⁹*Proceedings of the Constitutional Convention, 1862*, p. 1049.

¹⁴⁰Classifying the banks by value of securities, we find the notes of

38 banks were redeemed at 50-60c

25 banks were redeemed at 61-70c

11 banks were redeemed at 71-80c

8 banks were redeemed at 81-90c

3 banks were redeemed at 90-95c

4 banks were redeemed at par

Illinois State Journal, July 7, 1862.

¹⁴¹*Reports of Session (Senate), 1863*, p. 110.

two and three dollar bills of banks outside of Illinois. They soon found, however, that such a move was entirely unsupported by public sentiment and their efforts to enforce the act came to an end.¹⁴²

There is little doubt but that the stock banking system as amended in 1861 would have made a favorable showing had it had a fair trial. The restriction of securities to those of Illinois and the United States, the limitation of note issue and the redemption agency requirement remedied the fatal defects in the system. However, the large volume of United States notes, followed shortly after by the notes of the national banks, prevented a satisfactory demonstration of the merits of the revised banking system before it went out of existence. In 1865 the legislature abolished the office of bank commissioner and entrusted the supervision of the banks to the auditor and treasurer.¹⁴³ At that time there remained twenty-three stock banks with a circulation of \$199,364, based upon Illinois six per cent bonds valued at \$252,684.17. August 1, 1866, the ten per cent federal tax upon state bank notes became effective and resulted in the retirement of all but \$35,046 by November 30 of that year.¹⁴⁴

In 1867 the legislature authorized the existing stock banks to retire their notes, reduce their capital stock to five thousand dollars and continue their banking activities other than note issue. It was provided that thereafter "no more banks with power to issue notes . . . shall be organized."¹⁴⁵ The last official trace of the old stock banking system is found in the report of the auditor for 1869 in which he informed the legislature that he had in his possession \$631 in greenbacks as security for \$531 worth of bank notes still outstanding.¹⁴⁶

¹⁴²*Illinois State Journal*, December 4, 1862; *Bankers Magazine*, xvii, 241.

¹⁴³*Laws of Illinois*, 1865, p. 20.

¹⁴⁴*Reports of Session* (Senate), 1867, p. 115.

¹⁴⁵*Laws of Illinois*, 1867, p. 49.

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6. *The Bulletin of the State Geological Survey*.

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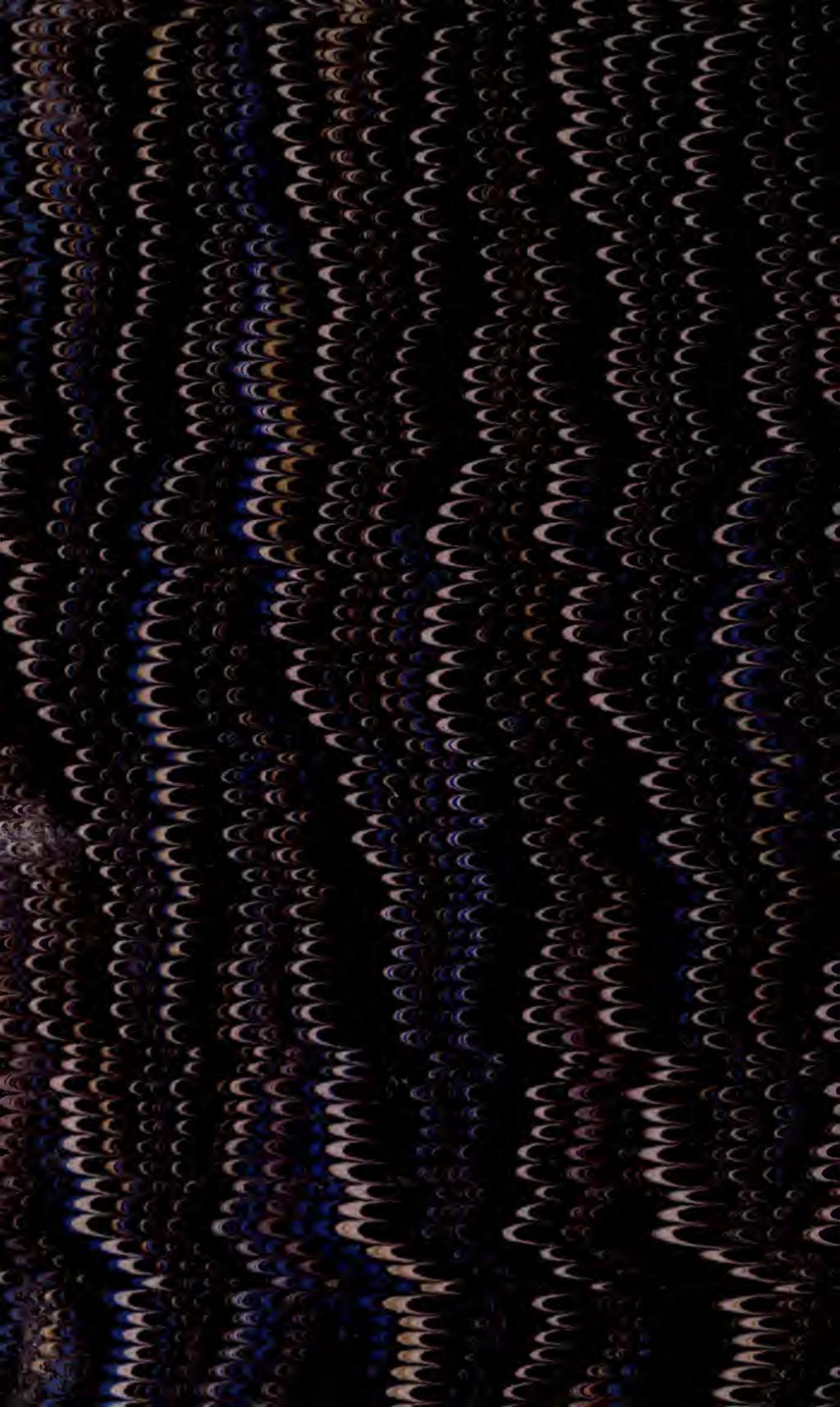
8. *Report of the State Entomologist*.

9. *The general series*, including the University catalog, and the circulars of the undergraduate colleges, the Graduate School, the Colleges of Law and Medicine, the Schools of Dentistry, Pharmacy, Education, the Courses in Business Administration, the Library School and the Summer Session.

10. *The Bulletin of the Illinois Association of Teachers of English*.

11. *The Bulletin of the School of Education*.







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